

**FOREIGN  
BROADCAST  
INFORMATION  
SERVICE**

# ***JPRS Report***

## **China**

REPRODUCED BY  
U.S. DEPARTMENT OF COMMERCE  
NATIONAL TECHNICAL INFORMATION SERVICE  
SPRINGFIELD, VA. 22161

19980123 142

DTIC QUALITY INSPECTED 3

**DISTRIBUTION STATEMENT A**

Approved for public release;  
Distribution Unlimited

# China

JPRS-CAR-90-066

## CONTENTS

29 AUGUST 1990

### INTERNATIONAL

#### GENERAL

Unemployment Increases in Bulgaria [XINHUA] .....	1
'Critical' State of GDR Unemployment Noted [XINHUA] .....	1
Price Rises, Drought Hit Czechoslovak Farmers [XINHUA] .....	1
40 Percent Hike in Hungary's Crime Noted [XINHUA] .....	1

#### SUB-SAHARAN AFRICA

Liberia Charges U.S. Interference [XINHUA] .....	1
--	---

### POLITICAL

Marxist View, Practice of Human Rights [SHEHUI KEXUE No 4] .....	3
Wuer Kaixi, Other Exiles Send Open Letter to CPC [Hong Kong CHAO LIU No 40] .....	5
Xing Bisi, Ru Xin's Political Views [Hong Kong CHAO LIU No 41] .....	7
Li Peng-Li Ruihuan Conflict Intensifies [Hong Kong PAI HSING No 220] .....	9

### ECONOMIC

#### NATIONAL AFFAIRS, POLICY

Hong Kong Economist Assesses Current Economic Problems [Hong Kong KUANG CHIAO CHING No 211] .....	11
Enterprise Groups Examined [ZHONGGUO JINGJI TIZHI GAIGE No 5] .....	16
Statistical Department Director Analyzes Economic Management [JINGJI RIBAO 19 Jul] .....	18
Socialism, Commodity Economy Discussed [JINGJI YANJIU No 6] .....	20

#### PROVINCIAL

Zhejiang, Shanghai To Increase Economic Cooperation [XINHUA] .....	27
--	----

#### FINANCE, BANKING

Realistic Role of Securities [GAIGE No 3] .....	27
New Types of Savings To Guide Consumption Suggested [JINRONG SHIBAO 20 Jun] .....	30
State Councilor Calls for Prompt Debt Settlement [JINRONG SHIBAO 14 Jul] .....	32
Shanghai Exchange Adopts Fluctuating Rates [XINHUA] .....	33

#### INDUSTRY

Steel Production Regains Strength, Exceeds Plan [JINGJI CANKAO 4 Jul] .....	33
---	----

#### SMALL-SCALE ENTERPRISES

Town, Township Enterprises Contribute to Economy [JINGJI YANJIU No 5] .....	34
---	----

#### CONSTRUCTION

Commercialization, Urban Reform of Housing [GAIGE No 3] .....	42
---	----

## COMMERCE

Shanghai Vice Mayor Outlines Commercial Sector Goals [SHANGHAI JINGJI No 3] .....	45
Shanghai To Build Largest Commercial Center [XINHUA] .....	50

## FOREIGN TRADE, INVESTMENT

Scholar Assesses Macroeconomic Regulation, Foreign Trade [CAIMAO JINGJI No 4] .....	50
Improved Supervision Needed Over Compensation Trade [GUOJI MAOYI WENTI No 5] .....	57
Promotion of Dual Contract Export Agent System [JIEFANG RIBAO 4 Jun] .....	58
Zhejiang Improves Infrastructure To Enhance Investment Climate [ZHEJIANG RIBAO 25 Jun] .	61
Zhejiang's Foreign-invested Enterprises Enjoy Steady Growth [ZHEJIANG RIBAO 28 Jun] .....	64
Shanghai Continues To Receive Foreign Funds [XINHUA] .....	65
Internal Management Deemed Greatest Obstacle for Joint Ventures [CHING-CHI TAO-PAO No 31] .....	65
Experts Recommend Shanghai Focus on Trade [XINHUA] .....	65

## ECONOMIC ZONES

Guangzhou, Sakhalin Sign Major Barter Trade Deal [NANFANG RIBAO 14 Jun] .....	66
Hainan Issues New Measures Encouraging Foreign Investment [NANFANG RIBAO 24 Jun] .....	66
Taiwanese Investment in Zhuhai Increases [NANFANG RIBAO 26 Jun] .....	66
Future Goals for Special Economic Zones Examined [GUOJI MAOYI WENTI No 6] .....	67
Taiwan Businessmen Plan Industrial Zone in Hainan [GUOJI JINGMAO XINXI 5 Jul] .....	74
Japanese Show Interest in Pudong [WEN HUI BAO 17 Jul] .....	74
Shanghai Delegation Visits Osaka, Promotes Pudong [WEN HUI BAO 19 Jul] .....	75
Nantong Beefing Up Services, Investment Incentives [XINHUA] .....	76
Shanghai's Minhang Economic Zone Gets Foreign Funding [XINHUA] .....	77

## AGRICULTURE

Jan-Jun Cereal, Oil, Food, Cotton Exports [CEI Database] .....	77
July Exports of Cereals, Oils [CEI Database] .....	77
Government Promotes Spaced Rice Planting Technique [XINHUA] .....	78
Guizhou Province Reports Progress in Afforestation [XINHUA] .....	78
Henan Grain Production Problems, Solutions [HENAN RIBAO 7 Jul] .....	78
Henan Wheat Storage [HENAN RIBAO 8 Aug] .....	82
Hubei Sorghum Area [HUBEI NONGYE KEXUE No 6] .....	82
Jiangsu Hog Procurement [XINHUA RIBAO 8 Aug] .....	82
Jiangxi Summer Harvest [JIANGXI RIBAO 13 Jul] .....	82
Liaoning's Countryside Suffers From Drought [Shenyang Radio] .....	82
Yunnan Grain Procurement [YUNNAN RIBAO 20 Jul] .....	82
Zhejiang Tea Procurement, Exports [JINGJI CANKAO 23 Jul] .....	82

## SOCIAL

State Education Commission Urges Rectification of Adult Education [ZHONGGUO JIAOYU BAO 21 Jun] .....	83
Great Achievements in Graduate Education [ZHONGGUO JIAOYU BAO 26 Jun] .....	84
New Phase in Party Building Work in Colleges [ZHONGGUO JIAOYU BAO 30 Jun] .....	84
Discussion Sharpens Over Bureaucrat Profiteering [Hong Kong CHIUSHIH NIENTAI No 246] .....	86

## MILITARY, PUBLIC SECURITY

Admiral Recounts First Naval Ocean Navigation Trip [JIANCHUAN ZHISHI No 4] .....	89
Hard Life in Border Trenches [SICHUAN HUABAO No 4] .....	91

## REGIONAL

### CENTRAL-SOUTH REGION

Guangzhou Rejects Report on Clean Government [Hong Kong TA KUNG PAO 31 Jul] .....	92
---	----

### NORTHEAST REGION

Liaoning Cites Achievements in Party Building [LIAONING RIBAO 30 Jul] .....	92
Liaoning Increases Party Membership [LIAONING RIBAO 1 Jul] .....	93
Heilongjiang Conference on Peasants' Burden Ends [Harbin Radio] .....	93
Heilongjiang Holds United Front Work Conference [Harbin Radio] .....	93
Heilongjiang To Elect Local Deputies [Harbin Radio] .....	94

### NORTHWEST REGION

Management of Religious Activities, Stability of Xinjiang [XINJIANG SHEHUI KEXUE No 2] ..	94
Xinjiang Discipline Inspection Commission Meets [Urumqi TV] .....	101

## PRC MEDIA ON TAIWAN AFFAIRS

Analysis of Taiwan's Changing Political Direction [Hong Kong LIAOWANG OVERSEAS EDITION No 23] .....	103
--	-----

## TAIWAN

Pattern of Investments in PRC Analyzed [KUANG CHIAO CHING No 211] .....	106
New Political Culture in Official Circles [Hong Kong CHIUSHIH NIENTAI No 245] .....	109
Editorial Calls For Mainland Investment, Trade Policy [CHUNG-YANG JIH-PAO 9 Jul] .....	111

## HONG KONG, MACAO

Columnist Critical of CPC's Hong Kong Policy [PAI HSING No 219] .....	114
---	-----



## GENERAL

### Unemployment Increases in Bulgaria

OW3007060490 Beijing XINHUA in English  
0540 GMT 30 Jul 90

[Text] Sofia, July 29 (XINHUA)—The number of unemployed in Bulgaria has risen to more than 20,000, of which 14,000 are women and 8,600 are educated persons engaged in technical or economic work, a government committee announced here Sunday.

Bulgaria used to be an East European country with the least unemployment. The problem emerged at the beginning of the year amid bitter shortages of raw materials and energy in production. The closure of some polluting plants and the streamlining of administration exacerbated the problem.

The country is determined to ease the unemployment problem by building a number of commercial and service establishments, transforming some military enterprises into civil industry, and repatriating foreign workers, according to the Committee of Labor and Social Welfare.

### 'Critical' State of GDR Unemployment Noted

OW0108075090 Beijing XINHUA in English  
0657 GMT 1 Aug 90

[Text] Berlin, July 31 (XINHUA)—Democratic German (GDR) Labor Minister Regine Hildebrandt demanded today that Federal Germany contribute several billion more marks to deal with the country's critical unemployment problem.

Federal German officials have said they cannot agree to more aid requests for the GDR's unemployment troubles and that the Democratic Germans should practice austerity to deal with their financial problems.

The labor minister told a press conference here today that the GDR Government could offer no more than 100,000 training posts because of the acute shortage of funds.

An increasing number of Democratic Germans are swarming into West Berlin and Federal Germany in pursuit of jobs, while more and more young East Germans have made themselves apprentice workers in Federal Germany and will never return, the minister said.

On Sunday, the minister told "Sende Freies" Berlin Television that up to 250,000 Democratic Germans have lost their jobs, while 500,000 others have seen their work hours cut since the inter-German state treaty took effect on July 1.

### Price Rises, Drought Hit Czechoslovak Farmers

OW0108165790 Beijing XINHUA in English  
1419 GMT 1 Aug 90

[Text] Prague, August 1 (XINHUA)—Farmers in Czechoslovakia are suffering from one of the most serious droughts in the country's history, a misery compounded by the fact that because of price rises they cannot sell their beef.

Apart from a three-month period, there has been little rain since last October with last month the driest of all.

In the central Czech region of the country, some rivers have dried up completely and 44 towns and villages are short of water. The volume of water in the Danube has dropped by half and in other rivers it has fallen to only 40 percent.

Autumn crops and forage grass have been badly affected.

To make things worse, a 50 percent price rise announced in early July, has slashed beef sales. In the Czech area alone there are 30,000 oxen awaiting buyers while 15,000 tons of beef and 5,000 tons of pork are piled up in depots.

Bohumil Kubat, agricultural minister of the Czech republic, said he believed the government would in advance introduce a method of free price to solve the problem of sluggish beef sales.

### 40 Percent Hike in Hungary's Crime Noted

OW0408144790 Beijing XINHUA in English  
1227 GMT 4 Aug 90

[Text] Budapest, August 4 (XINHUA)—Hungarian police announced today a total of 148,000 crimes for the first half of this year, up nearly 40 percent over the same period last year, with a predicted yearly total of over 300,000.

Police said property violation rose by 53.5 percent, the highest growing rate of all crimes, which caused 3.1 billion forint in losses (about 0.47 million dollars).

Moreover, police statistics showed a 23.7 percent rise in traffic violations, a 25.9 percent rise in financial violations, and a 8.2 percent in domestic violations.

## SUB-SAHARAN AFRICA

### Liberia Charges U.S. Interference

OW1208105790 Beijing XINHUA in English  
2350 GMT 11 Aug 90

[Text] Lagos, August 11 (XINHUA)—The Liberian ambassador to Nigeria, Mr. Dueh Chieh, today accused the United States of arming the Liberian anti-government forces, thereby worsening the situation in his civil-war-torn country.

In a statement to the news agency of Nigeria, the ambassador said that the U.S. Marines stationed in Liberia are perpetrating other alleged acts that could "frustrate the ECOWAS initiatives and decisions in favour of a ceasefire and peace-keeping."

He accused the U.S. Marines of constantly overflying the president's mansion and delivering arms and other supplies to the anti-government National Patriotic Front of Liberia (NPFL).

The U.S. Marines are also engaged in "training of rebels at West Point," said Mr. Chieh.

Mr. Chieh said that U.S. Marines are maintaining road-blocks on the street in front of the U.S. Embassy and preventing the movement of Liberian Government troops enroute to West Point.

He urged the United States to stop the harassment of the Liberian Government and the interference in Liberia's internal affairs.

The ambassador has voiced his "total support" for the planned military intervention in Liberia by the Economic Community of West African States (ECOWAS) and pledged to do its best to ensure that the ECOWAS peace mission succeeds.

The government of President Samuel Doe is still in control in Liberia but is willing to relinquish power to an interim government of national unity that will be installed by the ECOWAS countries, he said.

He said that the war situation is worsening because of the involvement of the superpowers and other external forces and urged the ECOWAS peace-keeping force "move in as soon as possible to restore peace in Liberia."

### Marxist View, Practice of Human Rights

90CM0192A Shanghai SHEHUI KEXUE [SOCIAL SCIENCES] in Chinese No 4, 15 Apr 90 pp 32-34, 64

[Article by Zhang Guangxin (4545 0342 2450) and Shi Peixin (2457 1014 2450): "The Marxist View of Human Rights and How It Is Actually Practiced in China"]

[Excerpts] [Passage omitted] "Natural rights," "sovereignty lies with the people," and other such slogans chanted by capitalist class ideologues are direct attacks on feudal systems of government, and they have played an enormous role in arousing and mobilizing the masses to further the capitalist class revolution. The capitalist class revolutions of England and France and the U.S. war for independence were all carried out under the banner of "freedom and equality." On 26 August 1789, the French Constituent Assembly promulgated the "Declaration of the Rights of Man and of the Citizen" (known simply as the "Declaration of Human Rights") which stressed equality among men and the right of man to enjoy freedom, property, safety, and the power to resist oppression. This declaration specifically cited the capitalist class in its program of government and constitutional principles. This document would serve as the classical political document for worship and emulation by later capitalist nations operating under the representative democracy system.

Although the system and theory of human rights was first put forth and established by the capitalist class, Marxism not only has never opposed human rights, but has, in fact, treated the battle to secure human rights as a fundamental mission of the socialist revolution. The *Communist Manifesto* clearly points out that "the first step in the workers revolution is to elevate the proletariat to the ruling class and to win democracy."<sup>5</sup> One must win human rights in order to win democracy—one must first win the democratic right to be the master of one's own affairs. Also, Marxism treats the achievement of communism where "the free development of all is conditioned on each man enjoying free development" as its ideal and highest agenda.

According to Marxism, any power is a historical product that follows a law governed by socioeconomic relations. As one element of power, human rights can only be one specific power acknowledged and established in law by the class that has come to occupy a ruling position in a nation. But if we look at it from the standpoint of man as a social being, then stress on collective human rights is the foundation for the human rights of all individuals, and full economic rights and guarantees are the material foundation for realizing each man's civil and political rights. The economic foundation determines the superstructure—whatever kind of economic foundation you have will dictate the kind of superstructure you end up with. Whoever occupies a dominant position in production relations will inevitably occupy a dominant position in the realms of politics and ideology as well.

The very suggestion of human rights is a manifestation of the demand of the capitalist class that their own political position be improved and that they be allowed to win the power to rule. It also reflects the demand of the capitalist class that they no longer occupy the subservient status of slave, poor peasant, or peasant, and that there be a sufficient number of free wage laborers so that the development of capitalism might have a leg to stand on. Marx and Engels pointed out that "human rights do not extricate a man's property from him, but rather, they give man the freedom to own property. Human rights do not make man abandon the filthy path of striving after riches, but rather, they give man the freedom to engage in commercial activity."<sup>6</sup> In *Das Kapital*, Marx went further in his analysis of the "natural rights" as proclaimed by the capitalist class: "The buying and selling of the labor force occurs within the confines of the circulatory or commodity exchange territories. Indeed, these territories are the true paradise of natural rights... The vulgar proponents of free trade get their views, concepts, and standards from the thinking that occurs in these little fields as they assess capital and the wage labor society. Once we leave these simple circulatory or commodity exchange territories we can see that the face of our average man undergoes certain changes. Owners of currency now become capitalists and they proudly stride forward. Owners of labor power become the workers for the capitalists and they tag along at the rear. The one smiles broadly and has high aspirations. The other trembles with fear and advances with trepidation—it is as if he sold his hide in the market and now the only one thing he can do is to let another tan it for him."<sup>7</sup> Thus, in a capitalist society where labor is bought and sold, so-called human rights are nothing but the right of the capitalist to exploit the worker and of the worker to be exploited. Moreover, for the proletariat and laborer it is nothing but the right to freely sell his labor. [passage omitted]

## II

In old China, laborers found themselves oppressed by imperialism, feudalism, and bureaucrat-capitalism; and politically and economically they had no human rights to speak of. Then the Chinese Communist Party came along and led the Chinese people in a relentless battle to win democracy and human rights, and it wrote a new chapter in the history of the modern democratic revolution highlighted by the use of law to protect human rights. Examples include the "Provisions Guaranteeing Human Rights in Shandong Province" promulgated in November 1940, the "Temporary Provisions To Guarantee the Rights of the People in the Border Regions of Hebei, Shandong, and Henan" promulgated in November 1941, and the "Provisions Guaranteeing Human and Property Rights in the Border Regions of Shanxi, Gansu, and Ningxia" promulgated in February 1942. These laws made direct use of the concept of "human rights" not only in application, but in name as well. This fully illustrates that our party treats the

securing and guaranteeing of human rights as a fundamental mission in the democratic revolution. The establishment of the New China also turned a new page in the history of human rights in China. First of all, the establishment of the socialist system of ownership by the whole people provided fundamental guarantees for the achievement of human rights. By wresting political power, smashing the machinery of the capitalist nations, and exploiting the exploiters, the proletariat brought production materials out of the private ownership system and placed them in the system of ownership by the whole people, bringing to an end the long history of division between the laborers and the means of production. In doing this the proletariat eradicated the inevitable inequality of economic rights that result in the system of private ownership and it eliminated the political inequality that results from economic inequality. Also, the democratic rights that the laborers won through political liberation were extended into the realm of economics, and democracy was achieved in the area of economic rights. The establishment of the socialist system of ownership by the whole people and the development of the socialist economy not only united the political and economic rights of the laborers, but it also provided the necessary material conditions that guaranteed that these rights could in fact be enjoyed. Joint control of the means of production by the laborers and the enjoyment of various forms of ownership and allocation rights in regard to means of production are the basic conditions that guarantee the human rights of man in socialist society.

In addition, socialism guarantees the fundamental right of man to be master of his own affairs. Our Constitution stipulates: "All rights in the People's Republic of China belong to the people," and, "In every way, shape, and form, the people shall, consistent with the law, manage the affairs of the nation, manage economic and cultural affairs, and manage social affairs." The rights to manage the nation, various enterprises, and cultural and educational affairs are the greatest, most fundamental rights enjoyed by the laborers under the socialist system. Without these rights, such other rights as the rights to work, receive an education, and relax would not exist. In summing up the experiences of the Paris Commune, Marx pointed out that "the commune destroyed the misconceptions that apparently the working class and the laborers had not the ability to manage the state and that administrative and political control were mysterious and unattainable." The Paris workers "immediately made all functions—military, administrative, and political—the true functions of the worker."<sup>11</sup> After the victory of the October Revolution, Lenin immediately announced, "As for us, the most important thing now is to bring all of the laborers together to run the state."<sup>12</sup>

Of course, when we speak of the masses running the nation we do not mean that the people en masse directly participate in leading all of the organs of the state's political power. According to Leninist thought and the

practice of socialist nations, the primary means of realizing the goal of having the people run the nation is through the systems of direct democracy and representation. When we speak of direct democracy we mean that the people operate from where they live, and particularly from their units, and, through the appropriate organizational forms and ways of living, manage the various economic and cultural matters, resolve the various issues that arise in political and social life, and supervise the work of state organs and state workers. When we speak of the representation system we mean that the people run the nation through the representatives they have selected. Aside from abolishing the various electoral qualification handicaps that the capitalist nations have in their laws and carrying out such democratic principles as universality, directness, and equality, our representative selection is also noted for being effectuated in a widespread, frequent manner, for following simple procedures, and for dividing grassroots electoral units along economic and production unit lines. In this way, the laborers can truly elect their own representatives to take hold and run the state, and this fully embodies the principle of "sovereignty of the people" that the capitalist democratic nations cannot achieve. Also, the people not only have the power to elect representatives, but they also have the power to supervise the representatives they have elected, and to replace incompetent or errant representatives when necessary.

Finally, the human rights of man in socialist society exist in fact, not only in name. The provisions of our Constitution concerning the basic rights of citizens are authentic ones. This authenticity manifests itself above all in the way in which our socialist ownership of the means of production by the whole people provides a strong material foundation for the realization of the basic rights of the citizen. In addition, our current Constitution stipulates the corresponding basic policies and measures the state will effectuate in order that the realization and gradual expansion of the basic rights of the citizen might be ensured. For example, in the area of developing the socialist educational undertaking and of ensuring the realization of the right of the citizen to receive an education, the "Preamble" of our Constitution stipulates a series of basic measures. Development of the educational undertaking requires on the one hand that we work hard to spread education, and on the other hand that we work hard to raise the standards. To achieve this, the Constitution stipulates that the state shall operate various schools, widely provide compulsory elementary education, develop middle, vocational, and high school education, and develop preschool education. Because China's cultural level is fairly backward, fairly rapid development of education will require on the one hand that we rely on conventional schooling, and on the other hand that we rely on various forms of spare-time education. The Constitution goes on to provide that the state shall develop various kinds of educational facilities, wipe out illiteracy; provide workers, peasants, state employees, and other laborers with political, cultural, scientific, technological, and vocational education;

and encourage people to teach themselves. Development of education cannot be achieved solely by relying on the efforts of the state. Thus, the Constitution goes on to provide that the state shall encourage collective economic organizations, state enterprises and businesses, and other social forces to undertake various educational endeavors in accordance with the law. On the basis of these provisions, the state can unleash various social forces and adopt numerous forms and run numerous kinds of schools so that our socialist educational undertaking might find vigorous development and the right of the citizen to receive an education might be given realistic assurances. Furthermore, the constitutional provisions regarding the basic rights of China's citizens stem fully from the actual situation in China and are completely feasible and workable. Although certain citizen rights, like the freedom of residence and the freedom to change one's residence, were provided for in the 1954 Constitution, practice has shown that the economic development needs of China preclude these rights from presently being guaranteed, and as a result, these rights were not written into the 1982 Constitution. The constitutional provisions of capitalist nations regarding basic human rights appear magnanimous on their face, but, in fact, only a small number of capitalists can really enjoy them. Basically, for the vast body of working people the provisions are empty talk. Thus, the authenticity of our constitutional provisions regarding the rights of citizens stands in clear contrast to the hypocrisy and emptiness of the provisions of capitalist nation constitutions regarding the rights of citizens.

At this point it bears pointing out that, above all, in the 40 years since the establishment of our nation, our people's democracy has developed and has shown itself to be far superior to capitalist democracy. However, because China's economy and culture are fairly backward and we have not had much time to establish our system of people's democracy, elements of feudal dictatorship, bureaucratism, patriarchy, and other such phenomena which violate democratic principles continue to exist in our political life. In some regions and departments, there are times when people's democratic rights, the freedom of the person, and lawful economic rights and interests cannot be reliably guaranteed. All of this goes to illustrate that our democratic system needs even greater infusions of systematization, legalization, and orderliness. However, we cannot adopt capitalist democracy as a replacement.

History has shown that capitalist democracy is a road China cannot travel. Today, 40 years after the establishment of people's democracy in China, there are still foreign reactionary elements who would use the issue of "human rights" as a pretext to pressure us and rudely meddle in our internal affairs. However, the Chinese people, who have picked themselves up and who are standing on their own feet, do not respond to these tactics. Those who advocate capitalist "democracy" and "freedom" and who are trying to push for things like

"parliamentary democracy" in China are going backwards in history. Lenin pointed out, "Once the proletariat has wrested political power and a higher form of democracy has been achieved in the Soviet republics, anyone who takes steps backward toward capitalist legislative assemblies or capitalist democracy is an absolute reactionary working to further the interests of the exploiters, the landlords, and the capitalists."<sup>13</sup> Also, it is not as if there are no restrictions on the rights of man in socialist society. However, our restrictions and those placed on man in capitalist societies are distinguishable by their nature. In the capitalist system, restrictions are placed on the expansion of the rights of laborers, while the interests of the small minority of exploiters are protected. In socialist society, we restrict the rights of the small minority who would attempt to damage the interests of the state and the laborers, and we protect the interests of the state and the vast body of laborers. So-called "freedom of speech" and "freedom of the press" aimed at harming the interests of the state and the laborers are things that naturally must be restricted and prohibited. Only in this way can beneficial order in society, production, work, and life be established. And only in this way can we effectively protect the socialist system and ensure that the vast numbers of laborers realize the enjoyment of their rights.

#### Footnotes

[Footnotes 1-4 omitted]

5. *Selected Works of Marx and Engels*, Volume 1, p. 272.

7. *Ibid.*, Volume 2, p. 145.

8. *Ibid.*, Volume 23, p. 200.

[Footnotes 6-10 omitted]

11. *The Collected Works of Lenin*, Volume 17, p. 590.

12. *Selected Works of Marx and Engels* Volume 3, p. 483.

13. *The Collected Works of Lenin*, Volume 1, p. 272.

#### Wuer Kaixi, Other Exiles Send Open Letter to CPC

90CM0342A Hong Kong CHAO LIU [TIDE]  
in Chinese No 40, 15 Jun 90 pp 12-13

["Letter by Wuer Kaixi and Other Students in Exile to the CPC Central Committee: 'Our Minds and Thoughts Are on the Problem of Returning Home'"]

[Text] To the CPC Central Committee:

Today is 4 June 1990, and we are all the Chinese students in exile in France. This day last year was an unfortunate day for us as well as for you. On this day, many of our fellow students lost their lives because of their lofty convictions, while you, because you employed armed force to bloodily suppress a people's movement, brought your prestige down to its lowest point since

coming to power, and brought about an unprecedented isolation from all other peoples of the world.

#### **Political and Economic Regression as Consequence of the 4 June Massacre**

On this anniversary of 4 June, we students, who had so vividly advocated peace, reason, and nonviolence since the start of the 1989 student movement, must first of all voice strong condemnation of the 4 June atrocity.

Last year, prior to 3 June, we students had continuously demanded and hoped for dialogue with the government, but by committing the 4 June massacre those in government pushed us into a position of fundamental antagonism to you.

During the past year we have come to realize that China, outwardly in a state of stability and peace enforced by military might, was not able to achieve any progress. The distress of its economy is worse than before 4 June. The policy of "improving the economic environment and rectifying the economic order" has resulted in economic stagnation, and the living standard of the people has steadily declined. Outward appearances of calm and stability have not at all been able to dispel the hostile feelings of the masses toward the government. Conditions of intraparty corruption and unfair privileges, things which the students had so violently opposed, have not been eradicated, but on the contrary have secretly become even more serious. On the one hand, the government has to use an antiquated propagandistic method, such as the "study of Lei Feng," as a means of thought control, and must also practice a measure of intimidation as has seldom been experienced since the founding of the PRC, to maintain temporary peace and security. On the other hand, the people, who have generally lost confidence in better prospects for government and state, try by every possible means to flee the country. There are many indications that the various crises that led to the 1989 people's movement, crises which the government could not dissolve, and the problems which the students presented in their dialogue with the government last year, continue to exist, and that some of these problems have even reached ominous proportions. Still, in recent months we have noticed some signs of revival in all this regressive countercurrent, even though there have been only small bits of it. In certain situations, you too have adopted some new attitudes, and we, who are students in exile, follow with particular attention any policy of yours that relates to scholars and students.

#### **Mindful of Statements by Jiang Zemin and Li Ruihuan**

On 10 May, Jiang Zemin declared that you have stopped arresting students who had participated in last year's people's movement. Recently, you freed Dai Qing [2071 2532] and others, altogether 211 intellectuals who had participated in the people's movement, and you also stated that among the 331 persons still under investigation only 42 are students. Li Ruihuan said, "Generally, our policy toward those in exile is one of trying to win

them back and restore solidarity, and of encouraging them to return. We are not allowing the door to be closed tight; there shall be a home for them to return to."

Here, some among your leadership raise the question of our "returning home." As students in exile, living in a foreign country away from our parents, this is a problem that is constantly in our minds and in our thoughts.

Although all these signs of relaxation are to a great extent characterized by the intention to please the West, to have them reduce their political and economic pressures, and are motivated by the intention to temporarily dispel hostile feelings among the masses, we still note them with extreme interest. Before discussing the problem of "returning home," we must discuss where we, the students in exile, agree and disagree with this government. If it would be the case that we cannot fit in with this government and this society because of fundamental differences, history may possibly decree for us yet another exile. But there is a common understanding between us: neither of us wants a great calamity to befall present-day China. We have reason to believe that the overwhelming majority of CPC members do subjectively still hope that China will progress and will free itself from poverty.

#### **One-Party Dictatorship Runs Counter to the World Trend of Democracy**

The point on which we differ is that we no longer place our hopes in a centralized system of one-party dictatorship, nor on the current socialist system. We believe that it is precisely this system that has been the major obstacle to the rise of the Chinese nation. On this point we have even gone much further and with deeper conviction during our year in exile.

During the 1989 people's movement, the students had generally hoped that the Communist Party would by itself institute its own reform, but the 4 June massacre destroyed our dream of an "impetus toward reform." It also awakened us to the fact that it is necessary to end the one-party rule of the Communist Party as the only way out for China. We are not advocating a "down with the Communist Party" style of action, but we oppose the political system in which the CPC maintains a one-party dictatorship. It is precisely because the Communist Party stubbornly insists on maintaining this one-party centralization of power that we oppose those who insist on maintaining the system.

Nowadays, the direction of the world's trend is identical with the direction of China's historical trend. China cannot in isolation move outside of the world trend; this is the principle of "small climates determine the big climate" and "the big climate adapts to small climates." Those in China who now want to have China's developmental trend remain independent and outside of the world's great trend would be well advised to think thrice; we hope China will never again experience another utopian tragedy. In the above we have discussed the points of agreement and disagreement with you. In the

face of all the above, whether we shall seek common ground while reserving differences, or whether we shall stand in complete opposition to each other will be determined by the further development of China's political condition and the manifestations of all active agents in China's party politics. However, as far as the state of mind of the students in exile is concerned, we are hoping most fervently that environmental conditions will mature as soon as possible for our "return home." The said environmental conditions may be subsumed in the following three aspects.

**Reevaluation of the Freedom Federations at Universities and Colleges and Release of all Persons Involved in the People's Movement**

1. Since some among you have expressed that they would welcome our homecoming and would also guarantee that this would not be followed by a "settlement of accounts" later on, then, as far as the law is concerned, we would now and after our return home be no longer counted as criminals. Would it then still be appropriate to label us "counterrevolutionaries" and "rioters"? If we were able to return to our motherland as noncriminals, then the students who are still locked up in jail would also no longer be criminals, and it would stand to reason that they should be set free because we who had organized the student movement and had taken an active part in it had engaged in exactly the same activities as they, but had only managed to flee from China. We therefore demand that before we shall be allowed to legally return home, that you should release in good faith all our fellow students who have been incarcerated in connection with the 1989 people's movement, including Wang Dan [3769 0030], Guo Haifeng [6753 3189 1496], Yang Tao [2799 3447], and all other fellow students arrested in various provinces. If no such measures are taken, we would have no trust in you and would not feel safe for ourselves.

2. Since we would be able to return to China as noncriminals, would the student organizations we had established at that time—the Freedom Federation at Beijing University and the freedom federations at various provincial universities—still be illegal? If you would still consider our organizations to be illegal, while we, the organizers and participants in these organizations, are "legally" allowed to return to China, it would be logical to assume that we would equally be unable to trust conditions after our return. We therefore believe that it will only be possible for us to legally return to China after the nature of the freedom federations at universities and colleges has been reevaluated and their "illegal status" rescinded.

3. When meeting Shi-mi-de [2457 1378 3676 Schmidt?] in the Great Hall of the People, Deng Xiaoping said, "The main cause for the political incident of 1989 was bad deportment at all levels of the party; the widespread incidence of corruption within the party caused general dissatisfaction among the people." In these remarks he no longer speaks of the students who started the student movement which initiated the people's movement as

being the major problem. This is the first time that social causes are referred to in judging the causes that led to the people's movement. We feel that there is a certain connection here with the series of objectives which the students pursued in the student movement. The difference now is that we have a somewhat broader view of things. We believe that the critical cause for the general dissatisfaction of the masses was the prevailing one-party political system. A solution of the problem that aims merely at corruption within the party is perfunctory and not a radical cure. An actual example is the failure of the policy of economic retrenchment as instituted by Li Peng in the last two years. We hope you will rethink the lessons of this policy of capricious changes and reconsider the causes of the social and economic crisis.

Recently, a certain official in the economic field indicated that the retrenchment policy has been completely stopped, and that from now on a price reform will be instituted, as had been advocated by former Secretary General Zhao Ziyang; this is something that we initially welcome. On the student question, we hope you will reconsider the origins of the student movement and its value for China's future. In his report at the May 4th memorial, Jiang Zemin also emphasized the important role of young intellectuals in the state, and at the end of this report he said, "Youth is that part of society that shows greatest vitality;...the 21st century will be your century." On our part we sincerely point out that we shall truly activate the "vitality" of all intellectuals and young students and encourage their trust in the state (as at present, however, a large section of young intellectuals think of every possible way to go abroad, creating a situation in which everybody intends to get out of China). The most important matter is therefore to reconsider and reassess the 1989 people's movement.

[Signed] Yang Hao [2799 5714], Liu Wei [0491 5898], Wuer Kaixi [0710 1422 7030 1585], Wang Longmeng [3769 7893 5536], Peng Ming [1756 2494], Fang Li [2455 7812], Lei Kai [7191 0418], all Chinese students in exile in France.

Paris, 4 June 1990.

**Xing Bisi, Ru Xin's Political Views**

90CM0330A Hong Kong CHAO LIU [TIDE]  
in Chinese No 41, 15 Jul 90 pp 10-11

[Article by Lin Yang (2651 2799): "Xing Bisi and Ru Xin 'Grasp Theory' in Their Criticism of Liberalization"]

[Text] Even though Communist China has released a group of "rioters," also allowed Fang Lizhi and his wife to leave the country, and has also shown signs of relaxation in its foreign economic policy, Communist China's ideological control is still very tight, and "criticism of liberalization" and "criticism of Zhao" are still constantly to be heard everywhere.



### Green Gang, Red Gang, and the New Left "Grasp Theory"

The group now in power in Communist China is constantly emphasizing the need to "grasp ideology" and to "grasp theory," to criticize liberalization, and to advocate the four cardinal principles. Starting with the symposium on theory in April, held in honor of Lenin's 120th birthday, to the May symposium commemorating the 48th anniversary of publication of Mao Zedong's *Talks at Yanan*, and again to the symposia on special topics held by GUANGMING RIBAO in the middle and later part of June, the limelight was on the two "leftist factions." One group was composed of members of the old "Green Gang" and "Red Gang," like Deng Liqun, Xiong Fu [3574 1788], Wang Renzhi, He Jingzhi, Xu Liqun, Lin Mohan, Wu Lengxi [0702 0377 6007], Li Xifan [2621 1585 0416], Hao Ran [3185 3544]. The other group are the "New Left" faction, which has been very active during the last 10 years. Its representatives are Xing Bisi [6717 6321 1835], who was appointed, after the 4 June incident, to the position of vice president of the CPC Central Committee's Party School, Ru Xin [3067 0207], vice president of the Chinese Academy of Social Sciences, and Su Shuangbi [5685 7175 4310], deputy editor in chief of QIUSHI [SEEKING TRUTH] magazine.

### Ru Xin's Claims to Ideological Leadership

At the end of the 1970's and in the early 1980's, Ru Xin and Xing Bisi were theorists of the reform faction and had participated in the polemics over "practice is the test of truth" and the "alienation of socialism," but they were later brought over by the Hu Qiaomu people and became what Beijing's intellectuals refer to as the "New Left" faction.

Ru Xin, aged 59, had in the past talked much about humanism, but is now advocating Hu Qiaomu's ultraleftist ideas. At a symposium on "The Shift at the Political-Ideological Front," he again and again talked about "never to ignore the ideological leadership" and of "truly resolving the question of Marxist ideological leadership in all departments." The way he was talking, it was really the "On Class Struggle" stuff all over again.

At a recent symposium held by the GUANGMING RIBAO, Ru Xin's talk was not so "leftist" anymore. He admitted that the "criticism of liberalization" had aroused misgivings among the intellectuals, and he worried whether he could publish his theoretical views. He therefore proposed to separate political questions and academic questions, the discussion of the latter to be permissible. He also proposed to separate the bourgeois liberalization idea from ideas that have been influenced by thoughts of bourgeois liberalization.

### Xing Bisi Distinguishes Three Levels in the Ideological Field

While the great enthusiasm for "criticism of liberalization" and "extreme leftism" prevailed, it was extremely

difficult to make a clear distinction between what is political and what is academic, and also between liberalization ideas and ideas influenced by thoughts of liberalization. Xing Bisi approved of differentiating between the two, and said at a GUANGMING RIBAO symposium that we may distinguish three levels in the ideological question. The first level is the area of bourgeois liberalization, the second level is the evil and mistaken ideas influenced by liberalization. The third level is the question of arguing right and wrong in the academic field. To the first level he ascribed the system of party pluralism, the system of private ownership, the view that Marxism is outdated, and complete Westernization, which he considers as "antiparty, antisocialism" and to be condemned. He lashed out against the idea of a "pluralistic concept of truth," and asserts that Marxism is "up to now still the universally applicable truth" and that "Marxist guidance must be upheld."

Statements by Xing Bisi and Ru Xin reveal the dilemma of Communist China in its "criticism of liberalization." Since they define "liberalization" as "antiparty and antisocialism," would it still be possible to truly "let a hundred flowers blossom and a hundred schools of thought contend?" In what are referred to as political questions and academic questions, the "contradiction between ourselves and the enemy" and the "contradictions among the people" are in every respect subject to the judgment of those in power, and there is no room for free discussion.

### The Party School Under the Direction of Qiao Shi

Xing Bisi, aged 61, marked out many forbidden zones for intellectuals, projecting himself in appearance and utterances as a man of the "New Left faction." His ideas are very similar to the idea of extending the class struggle held by the "Green Gang" and the "Red Gang" of the past. Xing Bisi is a native of Sheng County in Zhejiang Province, thus a close fellow townsman of Qiao Shi and very much a favorite of Qiao Shi. Qiao Shi is nominally president of the CPC Central Committee's Party School, but is kept busy with his duties as member of the Standing Committee of the CPC Politburo, secretary of the CPC Secretariat, and secretary of the Central Discipline Inspection Commission. The affairs of the Party School are actually being taken care of by Xing Bisi.

This theorist has written *Humanism in the History of European Philosophy*, *Philosophy and the Enlightenment*, *Feuerbach's Humanism*, and *Philosophy and Era*. The shift from propounding humanism to propounding class struggle is the tragedy of the "politicization" of an intellectual. Under a dictatorial system of government, even intellectuals of the reform faction, after being appointed to official positions, frequently attach themselves to the group in power in the Central Committee and close their eyes to the acute hardships of the people, while compiling the "theoretical foundation" for the benefit of dictatorial rule; in all these respects Xing Bisi and Ru Xin are excellent examples.



### Li Peng-Li Ruihuan Conflict Intensifies

90CM0317A Hong Kong PAI HSING [THE PEOPLE]  
in Chinese No 220, 16 Jul 90 pp 3-4

[Article by reporter for Beijing: "The Internal Struggle Among the Eight Elders Over the 4 June Incident—Clash Between Li Peng and Li Ruihuan Gets Sharper by the Day"]

[Text] The well-organized attack by He Jingzhi [6320 2417 037] on Li Ruihuan [2621 3843 3883] indicates that the behind-the-scenes struggle within the Chinese Communist hierarchy is becoming more public and more visible. The eight elders who run the country are, almost without realizing it, getting more and more embroiled in the internecine fight for power sparked by attempts to fix responsibility for the 4 June incident.

The most recent widespread whispers have it that Deng Xiaoping, ever crafty and concerned about the future and where he stands in it, is not about to face the ghost of Karl Marx some day bearing the onus of the 4 June incident, and will inevitably try to redress the bad situation. Now that the whole world knows that it was a costly mistake to have suppressed the movement with brutal military force that resulted in terrible bloodshed, attention is focusing on who actually had given the order to fire.

After the incident, Deng's daughter, Deng Rong [6772 2827], nicknamed Mao Mao [3029 3029], reiterated on several occasions that it was her father who approved the declaration of local martial law and ordered troops to be deployed in the heart of the capital. But she emphasized vehemently that "Daddy never gave the order to open fire." Thus, who did becomes the crux for fixing responsibility. One version had it that, during the night of 3 June, Li Peng stayed at Zhongnanhai to stay on top of everything. Another version laid the blame on Wang Zhen [3769 7201] as being the one who actually gave the order to fire. Still another said it was Yang Shangkun.

In its editorial on 26 April 1989, RENMIN RIBAO categorized the students' patriotic movement as a "disturbance," but later upgraded it to a "counterrevolutionary rebellion." Now, a year later and despite much investigation, there is still no evidence of an "organized, preplanned uprising." It turns out that Li Peng, Li Ximing, Chen Xitong, and others had plotted to lay the "black hands behind the scene" on Fang Lizhi and Li Shuxian [2621 3219 8300]. However, the more the investigation, the clearer it became that there had been neither organization nor preplanning, let alone some conspiracy, but was a genuine, spontaneous movement.

Li Peng and his associates had originally accused Zhao Ziyang of three serious crimes: 1) Opposition to Deng Xiaoping; 2) Splitting the party Central Committee; and 3) Supporting the troublemaking of students. In the beginning, the eight elders, including Deng, actually believed these charges. After more than a year's investigation, the conclusion is that they are false. As for the

rehabilitation of Zhao, Jiang Zemin collaborated with Li Peng in trying to put the screws to Zhao, but the results were fruitless. In a recent international media interview, he was forced to tone down. He has closely followed Deng's guidance in the Fang Lizhi affair. All the senior leadership hope that before each meets Karl Marx in the hereafter, the 4 June matter will have been clearly resolved. Some of the eight elders, such as Chen Yun, Li Xiannian, Peng Zhen, and Bo Yibo, particularly delight in the plight of Deng holding a tiger by the tail. They have declared that the situation cannot be resolved by a glossing-over. The later elder, Song Renqiong, has been less critical of Deng because of his long ties to Deng. But international opinion has converged with the inner power struggle into a deep running river and Deng, Yang Shangkun, and Wang Zhen are not main topics of discussion.

Former Defense Minister Zhang Aiping, who had been one of seven top military figures (the others were Yang Dezhi [2799 1779 1807], Xiao Ke [5618 0344], Ye Fei [0673 7378], Li Jukui [2621 5112 1145], Chen Zaidao [7115 0375 6670], and Song Shilun [1345 2514 6544]) who had counseled against using force, has urged Deng to reassess the Tiananmen incident now that its true nature is becoming clearer and to use a gentler tone so as to preserve Deng's historical reputation. He has also argued that the matter was intertwined with the nation's future.

The troubles besetting the elders on the Tiananmen matter has affected such areas as party, government, military affairs, finance, and the arts and letters. Resentment persists in Beijing and there is open discussion concerning redress. The consensus is that there will inevitably be steps to redress and it is merely a question of time. Discussion has been especially lively in cultural circles.

In grasping the situation, the Communist Party has made stabilization its top priority and is pulling all stops to achieve it. But as Political Bureau Standing Committee member Li Ruihuan so accurately observed, a prerequisite to stabilization is calming the public. As the person responsible for the party's "ideological battle-front," he knows that, to calm the public, one must first heed public sentiments. But his understanding of the situation earned him the jealousy of Li Peng, who has been trying to attack him in any manner possible. And the tactics used by Acting Cultural Minister He Jingzhi to attack Li Ruihuan this June finally brought into the open the inner struggle that has shaken Zhongnanhai.

The Political Bureau's Standing Committee had always maintained neutrality in the fight between the advocates of opening up and the conservatives. Li Ruihuan became representative of the reform clique, stoutly carrying out Deng's policy of continued opening up as laid out by the 13th CPC Central Committee. But Li Peng and Yao Yilin had ideas about turning it around. At the Fifth Plenary Session of the 13th CPC Central Committee, Deng had warned the six Standing Committee members

three times to stand fast together and avoid dissension. On one of these occasions, he directed his remarks to Li Peng and Yao. But the struggle between the two factions has continued. Just recently, under Li Peng's direction, along with Chen Yun, Li Xiannian, Peng Zhen, and Bo Yibo cheering him on, He Jingzhi, in his capacity as deputy director of the Propaganda Department and acting minister of culture, directed his henchman Ma Weian [7456 3956 1344] to attack Li Ruihuan on the pages of the Ministry of Culture organ, ZHONGGUO WENHUA BAO. On 24 June, in an article entitled "Guidance From the Central Committee Concerning Ideology," the paper published excerpts of comments by Chinese Communist leaders made from June 1989 to June 1990. Conspicuously missing were quotes from Li Ruihuan. One of Li Ruihuan's roles on the Political Bureau's Standing Committee has to do with ideology. At the same time, the paper printed an editorial, "The Entire Party Must Obey the Central Committee" which hinted that Li Ruihuan was not in tune with the party line. Li Ruihuan had repeatedly urged on Deng's gospel of continuing the opening up policy, and had also pushed for leniency to intellectuals so as to bind the wounds of the 4 June incident. Li Ruihuan complained to Deng about He's attack thus evoking Deng's fury at He. Deng declared it a "political matter" and demanded a thorough investigation.

Those who are familiar with and understand the struggle point out that behind He Jingzhi are, in addition to Li Peng, Hu Qiaomu and Deng Liqun. Further bolstering these is Chen Yun, who is regarded as the Suslovian theoretician of the Chinese Communist Party. So He Jingzhi's salvo is considered as an offensive by the conservatives against the reformists.

According to reports, Deng Liqun, joined by He Jingzhi and Wang Renzhi, has already decided upon a second wave of assault, preparing a formidable collection of essays criticizing changes in Eastern Europe and seeking to perpetuate the conflict by exploiting Deng Xiaoping's disinterest in specific details. But now, with He Jingzhi suffering dismissal from his post, this second attack may die in the womb.

In the He Jingzhi affair, Wang Zhen played an awkward role. He had expressed unqualified support for Deng Xiaoping, but he had also argued for the use of force at Tiananmen, boasting that he could "sweep the students from the scene with one armored regiment." In the

aftermath of the incident, he urged continued tough controls and opposed leniency. And, since He Jingzhi's wife, Ke Yan [2688 1484], was his goddaughter and accompanied him each year on vacation to the Zhuhai resort area, he pushed to have He Jingzhi become minister of culture, replacing Wang Meng [3769 5536]. Deng was, however, well aware of He Jingzhi's extreme left-leaning tendency and deliberately made him only acting minister. In Beijing's cultural circles he became known as "Hejingzhidai," a Japanese-sounding nickname that carried the meaning of "acting in lieu of." When he did finally become minister, he rammed through loads of leftist works.

When He Jingzhi saw that the clash between Li Peng and Yao Yiling with Li Ruihuan was increasingly sharpening, he was eager to contribute to the conservative cause, but Li Ruihuan hit an Achilles' heel. At a conference at the Ministry of Culture, He Jingzhi gathered the original critics of Li Ruihuan to thank them for their support. Then, pointing at Wang Renzhi, he said, "Something has happened," then began to weep. Beijing's cultural circles reveled in the failed conspiracy.

From all this, it can be guessed that the struggle is still just getting underway. If responsibility for the 4 June incident can be laid to an individual or group of individuals, then those not implicated can dismiss it from their concerns or can even exploit it to attack the other side, such as against Deng Xiaoping, or at least blunt his momentum.

Deng originally wanted to share responsibility with the other elders. A look at his words on 9 June shows that he referred to "old comrades" a number of times. For example, "The best thing is we still have a large number of old comrades around who are healthy. They have gone through much turmoil and understand the issues. They support decisive action concerning the rebellion." Not settling for just that, he later added, "We have a lot of healthy old comrades around... so it will be rather easy to deal with this eruption." Yet once more, he added a little later, "If we did not have the support of so many old comrades, it would be difficult even to define the nature of this incident." The first two implied the need to have joint responsibility. The last wanted a shared responsibility in defining the movement as a "counterrevolutionary rebellion." But some are now balking at being roped in and want to be detached. Is it not inevitable that any finger-pointing will lead to an internal struggle?

## NATIONAL AFFAIRS, POLICY

### Hong Kong Economist Assesses Current Economic Problems

90CE0169A Hong Kong KUANG CHIAO CHING  
[WIDE ANGLE] in Chinese No 211, 16 Apr 90  
pp 44-49

[Article by Chen Wen-hung (7115 2429 7703), at the Keio Gijuzo University, Japan: "What Are China's Current Economic Problems?"]

#### [Text] China's Biggest Problems Are Economic

China's biggest current problems are economic problems. If the economy can be stabilized, social and political stability can also be achieved. Otherwise, under the political pressures at home and from abroad and without the stabilizing effect of economic stability, it will be very difficult for the Chinese government to overcome its legitimacy crisis which has developed since June 1989.

#### Causes of China's Sluggish Market

The most pressing of the current economic problems is economic stagnation. And economic stagnation is manifest in problems "such as excessive stockpiles of products and manufactured goods, shortage of funds in enterprises, slow production growth, and an increased number of enterprises running at half capacity or brought to a standstill." Hidden behind these problems are economic, social, and, indirectly, political problems such as the inability to increase wages, a growing number of the urban unemployed, difficulty for the government to raise revenues, and so forth.

According to Li Peng's "Report on the Work of the Government," the root cause of all these problems "is the sluggish market, which is caused by the following factors":

1. Because of the excessive economic growth, unchecked expansion of processing industries over the previous years and current efforts to improve the economic environment and rectify the economic order, curtail investment and consumer demand, reorganize corporations, and build a clean and honest government, some enterprises, especially ones turning out unmarketable products of inferior quality and high price, have encountered serious difficulties in marketing their products.
2. Thanks to economic improvement and rectification, market prices are rising at a reduced rate and have become relatively stable, and thanks to inflation-proof savings deposits, the residents have deposited their money in banks for future purchases, following the consumer psychology of "buying when prices rise and not buying when prices drop."
3. Because of persistent defects in the current economic structure and its operating mechanism, various localities, departments, and enterprises incline to pay more

attention to their own interests, retarding progress in readjustment of the industrial structure and product mix.

4. The State Council failed to adopt timely and rigorous measures and apply effective methods for macroeconomic control.

#### Production and Marketing Problems Caused by Shortage of Funds?

Li Peng's views in his government work report are different from what he said at the State Council's Eighth Plenary meeting on 8 March. He said then: "At present, the two major problems affecting industrial production growth are the sluggish market and shortage of funds." But in his government work report, he deleted the shortage of funds as a major problem. This change in less than a month's time could reflect two things. The first is that the State Council's understanding of the current economic problems has changed. For example, the State Statistical Bureau's communique on the country's industrial production in January and February this year points out: Though in this period the total industrial output value has dropped 0.9 percent from the same period last year, so far as the product mix is concerned, the energy and raw and semifinished materials industries have continued to grow steadily, and production of the raw and semifinished materials industries has been effectively supported. Influenced by the market, production of most household machineries and electrical appliances has dropped; production of mechanical and electrical equipment has dropped by a large margin; and production of some building materials has also dropped. The State Statistical Bureau's conclusion: "Since the third quarter of the last year, the direct factor restricting industrial production has changed from the shortage of funds to the sluggish market." "The chain reaction of slow-selling goods, growing inventory, and falling efficiency will continue to spread." The second is about the amount of credit funds put into circulation. Credit funds were being increased rapidly since September last year, particularly with the supply of 100 billion yuan of loan funds beginning in November, and the total loan balance (not the total amount of loans for the same period, which should be larger) was even greater than in the economically overheated 1988. Since the beginning of this year, credit has actually been loosened. For example, "following the guidelines of the State Council's instruction," the head office of the People's Bank of China decided at the end of February to increase credit funds by 8 billion yuan to meet the requirement of large and medium-sized key enterprises for circulating funds. From the beginning of this year to the end of February, the Industrial and Commercial Bank of China increased industrial loans by 3.4 billion yuan. Moreover, according to Ye Qing [5509 7230], vice minister in charge of the State Planning Commission and concurrently chairman of the State Council's Production Committee, "The state supplied 25 billion yuan in February and March to meet the needs of the key enterprises." By comparison, the short-term loans extended in mid-March last year for the specific

purpose of stimulating production totaled only 5 billion yuan, and at the end of June last year the loan balance for the half year increased only 212.60 yuan. The credit policy is obviously more liberal this year than in 1989, and there is no reason whatever to say that credit control is still too tight. Therefore, the production and marketing problems cannot be blamed on shortage of funds.

The State Council and Li Peng should now have a rather realistic understanding of the current economic problems and not be misguided as they were in the period from the latter half of the last year to 8 March this year by the loud cries of local governments and enterprises about the shortage of funds. In fact, from the results of loosening credit in the latter half of the last year, it can be seen that while credit does have a bearing on production, its impact is far less than the influence of the declining market demand or sluggish market. The State Statistical Bureau also pointed out clearly: Large amounts of funds have been released since the end of the last year, but have failed to produce tangible results. The amount of loans increased by about 160 billion yuan in the latter half of the last year, but industrial production fluctuated between a positive and a negative growth of one to two percent during the period from September through November 1989. The increased loan funds produced no direct impact. Even though there should be a certain time lag before the monetary effect of the loan funds can be felt, the funds are supposed to have some long-term or short-term effect in preventing enterprises from getting into "debt chains." The actual effect is rather insignificant, however.

It is regrettable that perhaps constrained by pressures from various quarters (including local governments and higher bodies), Li Peng has failed in his government work report to spell out appropriate policies based on the relatively correct understanding. For one thing, after last year's economic improvement and rectification and curbing of inflation by tightening credit, the State Council still finds it necessary to examine its work and admit that it has failed to apply effective methods for macrocontrol, and it is afraid to defend itself with the law of periodical economic fluctuations; for another, the suggestions on policies and measures are not only unrelated but contradictory to this understanding, and they also have no direct relation with the previously mentioned factors causing the sluggish market.

The previously mentioned first and second factors indicate that the market is sluggish because consumption demand has been curbed after the overheated economic growth, which is actually the goal or inevitable result of the economic improvement and rectification. It could be argued that the State Council's improvement and rectification policy has suppressed society's consumption demand too much. But, judging by the overheated state of the economy from 1987 to the first half of 1989 and the limitations of China's objective resources (including financial and foreign-exchange resources) or the current purchasing power of society, it is rather hard to prove that consumption demand is over-suppressed. The crux

of the problem is that the current readjustment is only to curtail total supply and demand (actually only to curtail increases and not existing inventories) and fails to effectively readjust the structure. The structural contradictions caused by the pressure of inflation and restriction of resources still remain. The method of curtailing increases and tightening credit can only freeze the structural contradictions temporarily. With the slightest relaxation or a resurgence of consumption demand, the contradictions will reappear and become worse.

Generally speaking, the sluggish market is caused by demand changes, and its relation with the credit factor is relatively indirect and weak. Yet the measure to deal with it suggested in Li Peng's government work report is to use credit as a stimulant.

The report says: The State Council has decided to take various measures that will serve to ameliorate the present contradictions but not prejudice efforts to retrench expenditures, reduce the amount of credit to be granted, and readjust interest rates on loans and savings deposits. These measures include efforts to:

1. Appropriately relax the curb on the money supply and increase loans;
2. Properly readjust interest rates for loans and savings deposits;
3. Set up specialized groups to break "debt chains" as fast as possible and to reduce defaulting in debt repayment between enterprises;
4. Appropriately increase investment;
5. Open up new markets;
6. Readjust the prices of certain commodities, raising some and lowering others.

The first three are still credit measures, to relax control over credit, lower loan cost, and provide the money needed to break the debt chains between enterprises. Except for the second, these measures have been applied time and again in the past year, but the only result is lower loan cost, and the effect is limited, because the enterprises' problem is not loss or cost, which are all book figures. The crux of the matter is that they do not have sufficient funds to maintain long-term production and operation. Lowering the interest rate on savings deposits may force a part of the savings deposits to turn into consumption funds and enter the market, but with prices going down, lowering interest rate is in effect only to keep the true interest rate (after adjustment for price fluctuations) at a fixed level and not allow it to rise while prices go down. The true interest rate remains attractive to depositors. More important, if the consumption pattern of urban and rural residents changes, from buying things beyond their ability to pay as they did in the past few years, to spending according to their income (including anticipated income), how much can the effect be of

some slight changes in the true interest rate without increasing the market consumption demand at the same time?

Though the first three measures are designed to favor certain enterprises and have some effect on readjusting the industrial structure, the occurrence of debt chains between enterprises means that funds provided by the government and banks to efficient enterprises or enterprises which follow the industrial policy are transferred as debts to inefficient enterprises or enterprises which fail to follow the industrial policy. To maintain continued growth after the excessive industrial expansion caused by the overheated economy in 1987 and 1988, the energy, raw and semifinished materials, and other basic industries need to have certain growing demands, and such demands unavoidably may come from processing industries which should be readjusted or curtailed. Thus the demands of the processing industries keep the production of the basic industries growing, and the credit funds received by the basic industries are turned into debts owed by the processing industries without the ability to repay. Moreover, some major industrial enterprises are switching to production of consumer goods. So the added credit funds will ultimately end up in increased inventories of industrial goods as a whole. What happened in the latter half of the last year was clear proof.

The fourth and fifth measures are to expand consumption demands and to increase the chances for the consumption demands to be satisfied in the markets. The former is actually to change the policy of curtailing the excessive scale of investment in fixed assets, which has been in force since the latter half of 1988. Even if priorities are set for the new investment projects, with greater emphasis placed on some than others, the high-priority projects may still overlap what was done a few years ago when the scale of investment was excessive. It is also very difficult to insure that the order of priorities will be followed in implementation. Whether efforts to open up new markets can be successful will depend on whether there will be enough consumption demands on the agricultural and forestry markets.

#### **Can These Measures Change the Low Rate of Economic Growth?**

The sixth measure is to readjust prices. At present, since the costs of raw and semifinished materials and so forth are rising and financial subsidies are limited, it is conceivable that more prices will be raised than reduced. Raised prices will be those of energy, raw and semifinished materials, as well as other basic industrial products and light industrial products using agricultural products as raw and semifinished materials. (This is because the purchasing prices for agricultural and sideline products are increasing sharply. For example, the purchasing price for cotton will increase by more than 25 percent this year.) Price hikes will not stimulate consumption, but will generate inflationary pressure and inhibit the consumption demands of residents and enterprises and

check the growth of consumption funds which come from sales profits of the production enterprises (wages, institutional purchasing power, etc.). Reduced will be mostly prices of high-grade consumer goods. Price reductions may cause enterprises to lose money and, with possible changes in consumption pattern, may not necessarily stimulate consumption. Particularly the price slashing and dumping of goods that occurred at the end of the last year is going to have a negative impact on the growth of market demands in 1990.

In other words, the previously mentioned six measures cannot possibly improve the low growth rate of China's economy, because the sluggish market is caused by the lack of demand, and even though the fourth measure may help increase demand, it is doubtful that under the current circumstances, with society's discretionary purchasing power remaining quite enormous and the structural readjustment making slow progress, the State Council and the Chinese Government as a whole will increase investment rashly and on an extensive scale. For example, the government work report stresses: This year, nationwide total investment in fixed assets will be roughly the same as the amount actually used last year. So it is only to make some readjustments and shift funds from nonessential construction projects to key construction projects within the fixed amount of total investment. Institutional consumption will also continue to be controlled. Unless the theory of moderate consumption advocated by Minister of Commerce Hu Ping [7579 1627] (what he actually advocates is to maintain the high consumption pattern established during the period of overheated economic growth) is supported by the State Council and manifested in reduced control over institutional purchasing power, social demand will not be stimulated by the State Council's limited measure to expand demand, and the sluggish market which has continued since the latter half of the last year will not be changed.

#### **Changing Urban and Rural Consumer Behavior**

As understood in Li Peng's government work report, the current low growth rate and stagnation of China's economy is caused mainly by the sluggish market or insufficient demand. And judging by the conditions in the latter half of the last year, the sluggish market as a whole spread from expensive industrial consumer goods to goods for everyday consumption, thus adversely affecting the marketing and production of industrial capital goods. Moreover, investment in fixed assets was curtailed to a greater extent in the latter half of the last year. The total investment in the first half of 1989 dropped by 6.4 percent from the same period a year ago, and by the end of 1989, the year's total investment dropped by 9.1 percent from 1988. The drop in investment in local projects was 8.9 percent in the first half and 14.1 percent in the second half of the last year. This has dealt a further blow to the marketing and production of the machinery, electrical, and building materials industries.

Besides the delayed effect of the panic buying of 1988 and the government's reduction in investment and control of institutional consumption, the market change is caused mainly by the changing urban and rural consumer behavior.

Take color television sets as an example of high-grade consumer goods. From last year's monthly sales growth rates, we can see the trend of rapidly dropping consumer demand for high-grade consumer goods.

**Table 1—Monthly Growth Rates in Sales of Color Television Sets From January Through December 1989**

January	+ 28.5%	July	-52.8%
February	+ 23.1%	August	-61.7%
March	+ 22.1%	September	-33.1%
April	+ 41.8%	October	-24.0%
May	+ 2.0%	November	-26.2%
June	-2.8%	December	-8.3%

Note: The monthly growth rates are as compared with the same months in 1988 and used as price statistical indexes for 1989.

Sales of color television sets by commercial departments for the whole year dropped by 13 percent from 1988. Sales of other high-grade consumer goods also dropped. A considerable portion of high-grade consumer goods like color television sets are sold by the industrial enterprises through their own channels without going through the commercial departments. In 1989, 74.12 percent of the color television sets were marketed by the industrial enterprises on their own. The commercial departments sold 3.553 million units in 1989, and, adding the number sold by the industrial enterprises themselves, the total number sold still amounted to 7.034 million units, which was certainly not a small figure. Despite the negative growth rate, the sales volume remained very large.

The sales volume in 1989 was indeed smaller than in 1987 and 1988, a period of overheated economic growth. However, high-grade consumer goods are mainly durable goods, which are different from goods for daily consumption. Once bought, they will last quite a long time before being replaced by new purchases. Particularly in low-income countries like China, where the prices of high-grade consumer goods are many times the average annual wage, the ability to replace old ones with new is limited, and consumption or sales in a single year can increase the proportion of owners of such items in society. For example, the proportion of people owning color television sets, washing machines, refrigerators, and so forth increased rapidly during the several years of high consumption, and in 1989 sales of such items remained fairly high. Now 30-40 percent of the people in large- and medium-sized cities own these items, and the proportion is even higher in some cities. Urban residents of the higher-income brackets have by and large just bought these items in the past few years, and it is unlikely that they will buy again in the near future. People of the

lower-income brackets still cannot afford to buy. Therefore, demands for these high-grade consumer goods definitely cannot remain as high as in the past few years.

This trend is partly reflected in the unusual increase in savings deposits put in banks by China's urban and rural residents in 1989, a yearly increase of 133.4 billion yuan to a total of 513.5 billion yuan.

Besides, price rises slowed down in the latter half of 1989, and the diminishing anticipation of inflation also gave people greater incentive to save their additional income, instead of spending it as they did in the past few years.

Moreover, the changes in the economic and political situation in the past year also changed people's expectations of higher incomes and helped them understand more realistically that their income is not going to increase very much in the future and that their present income is really very low. Thus consumers, who a few years ago tend to buy things they could not afford, are now becoming more realistic in their consumption behavior.

In 1987, the real income of about 21 percent of China's urban families was lowered because of price increases, and the proportion rose to 34.9 percent in 1988 and 35.8 percent in 1989. For these over one-third of urban families, not only is buying high-grade consumer goods very unrealistic, but even ordinary consumption may have to be reduced. Under China's economic readjustment policy of 1990, the chances for these families to increase their income are very slight. Even in 1989, the proportion of per-capita income spent by urban residents on living expenses came to only 1,260 yuan, which was really very low, about the price of some high-grade consumer goods. For several years in the past, in the south and some cities and towns, the people's incomes were often not enough to meet their living expenses, causing them to have to borrow or use their savings. In 1989, their income increased to more than meeting their living expenses. Because of the above-mentioned reasons, limited increase, and even drop in income, the behavior of consumers has changed very obviously.

#### **The Peasants' Real Income Cannot Change Much This Year, and Demand for Durable Consumer Goods Will Be Further Depressed**

In the rural areas, the per capita net income of peasants was 545 yuan in 1988, a 17.7 percent increase over the previous year and a real increase of 6.3 percent after adjustment for price rises. In 1989, the per capita net income rose to 602 yuan, a 10.5 percent increase over 1988. However, after adjustment for price rises, particularly because prices rose more in rural areas than in urban areas in 1989, the peasants' real income actually dropped. The State Statistical Bureau also admitted that the real income of some peasant families actually dropped. The peasants' cash income is much lower than that of urban residents, and their average savings is just over 100 yuan per capita. When their real income drops,



the change in their behavior as consumers is all the more obvious. An investigation by the State statistical bureau's rural society department also points out: This year the peasants will reduce their consumption demands, especially demands for nonessential consumer goods. Therefore, after the down slide of sales of durable consumer goods in 1989, an even more extensive depression of the rural durable consumer goods market is expected in 1990. The purchasing prices for agricultural and sideline products will be further increased this year, but there is no price subsidies from the government in rural areas as there is in urban areas, and prices in rural areas are likely to remain higher than in urban areas (In January this year, the cost of living index rose by 5.9 percent in rural areas, 4.7 percentage points higher than in urban areas, and consumer price index rose by 6.3 percent in rural areas, 5.4 percentage points higher than in urban areas.). The peasants' real income will not improve much, and they should tend to reduce consumption and spend what they have mainly on low-grade consumer goods for everyday use.

With such income and consumption trends, how can social demand for high-grade consumer goods be expected to again become as strong as it was during the period from 1987 through the first half of 1989?

Unless the government strives hard to increase the income of urban and rural residents in every possible way, the people's consumption behavior and pattern can hardly be changed from the way they became in the latter half of 1989. And even if the income of urban and rural residents can be increased significantly, after reducing consumption in 1989 and taking into consideration the low per capita savings level, it is possible that they will put the newly added income in savings deposits as they did in 1989 rather than spend it. If interest rate on deposits is lowered, then with prices remaining stable, the real interest rate will still be attractive enough to keep people saving and able to absorb most of society's newly added income. It is not easy to turn the recovery of credit into a recovery of commodity trade, much less trade in high-grade consumer goods.

The government may try to increase market sales by expanding institutional purchases. However, in 1989, institutional purchases of consumer goods amounted to only 69.3 billion yuan, accounting for just 9.8 percent of the 708.4 billion yuan retail sales of consumer goods in society as a whole. No matter how much institutional purchases can be expanded, it will not be enough to make up for the slowdown in consumption by urban and rural residents. More important, the people's consumption pattern is changing, and purchases are turning mainly to traditional consumer goods. The proportion of high-grade consumer goods is dropping, while the proportion and growth rate of traditional consumer items like food are rising quickly. (In 1989, food consumption increased by 10 percent over the previous year, but clothing and articles for daily use increased only by 4.2 percent and 7.9 percent respectively.) The difference between the consumption pattern of institutions and that of urban

and rural residents will make increasing the former's demand for high-grade consumer goods even less effective in offsetting the reduced demand by the latter.

It is not possible to change the consumption pattern of urban and rural residents back to the way it was during the period of overheated economic growth and consumption beyond the limit of affordability in one or two years, and it is contrary to the goals of the structural readjustment. In the present stage of China's economic development, it is also beyond the country's ability to support this kind of consumption.

The falling sales and growing inventories of high-grade consumer goods have caused production to drop, and investment in fixed assets is also being reduced. The production of the machinery and electronics industries, which account for a rather large proportion of the total industrial output value, is bound to drop too.

In 1989, the ratio between the total sales of industrial products and the total value of industrial output was 95.55 percent. The ratio between the total sales and total output value of the machinery and electrical industry was 94.49 percent, the lowest among all industries in China. And the ratio was an even lower 91.61 percent for daily use machinery, electrical appliances, and electronics products. The ratios reflect the extent to which industrial inventories have increased. Because the production drops caused by sluggish sales occurred mainly in the second half of the year, the ratios were even lower in the second half of the year. Even so, the output value of the machinery and electrical industry still accounted for 23.24 percent of the country's total industrial output value in 1989.

If, as mentioned previously, the consumption pattern of urban and rural residents and the central government's policy of reducing investment remain unchanged, the production of the machinery and electrical industry will probably continue to drop in 1990, and the effect of this in bringing the total industrial output value down will be at least as strong as it was in the latter half of 1989. As a result, the increased production of the basic industries will be largely or even entirely cancelled out. However, it is believed that in 1990 the recovery of sales of goods for everyday consumption will stimulate production, and there is a chance that total industrial output may go up again. But, under the impact of the dropping production of high-grade consumer goods by the machinery and electrical industry, any increase in total industrial output will be limited.

#### **How To Deal With the Phenomena Brought by the Readjustment**

In the field of marketing and sales, the situation is about the same.

If the structural readjustment is aimed at gradually eliminating the contradictions in China's industrial structure and correcting the structural distortions caused by the overheated economic growth and consumption

beyond the limit of affordability a few years ago, then the drops in the sales and production of high-grade consumer goods and investment in the machinery and electrical industry are things which are quite normal, representing a result of the readjustment policy, and certainly not economic problems. The problems, if any, are social or political ones derived from the economic changes.

The Chinese government, particularly the State Council which is in charge of economic work, if they want to persist in the economic readjustment and hope that China's economy will maintain steady and coordinated development in the future, must first of all recognize this inevitable result and must not panic and abandon the policy of structural readjustment under political pressure.

### Be Careful and Not Make a Mess of Things

To reduce the difficulties caused by the structural readjustment, the measures that should be taken are not like the ones suggested in the government work report, but should be adapted to the changes in consumption pattern, to shift the focus of investment and management from high-grade consumer goods to other areas, and guard against and be prepared for the pressure of increased demands for grain, nonstaple food, and articles for everyday consumption brought on the market by the traditional consumption pattern as production gradually picks up again.

The development of a commodity economy follows a very clear cyclical law. The changing angle of the consumption pattern China is now experiencing will reinforce and accelerate the cyclical fluctuations. The countercyclical policies and measures the State Council is urged to pursue by concerned quarters are not adapted to the changing economic conditions, but are forcible attempts to interfere in the economy and market with political goals like production speed, brisk market, higher consumption level, and so forth. Very likely they will mess things up. As a result, the readjusting role of the cyclical changes will be lost, and it will be difficult for China's economy to break away from the threat of the structural contradictions. The government work report says that last year the State Council failed to apply effective methods of macroeconomic control. Actually it ignored the law of cyclical economic fluctuation and was unwilling to face up to the reality of the impact of the cooling down of the overheated economy on production and markets. Then it tried to stimulate the economy by expanding credit and revising the readjustment policy, which not only will not work, but will cause serious sequelae to China's economic development. It could become the greatest policy mistake of the State Council and the central leadership. It is worth noticing that the current discussion on the government work report has just exposed this wrong tendency.

### Enterprise Groups Examined

90CE0342A Beijing ZHONGGUO JINGJI TIZHI GAIGE [CHINA'S ECONOMIC STRUCTURE REFORM] in Chinese No 5, 23 May 90 pp 58-59

[Article by Sun Jiyuan (1327 1323 5373) and Jiang Qingwei (1203 3237 0251) of the China Enterprise Management Training Center; Column editor: Chen Chenyun (7115 3819 0061): "The Present Condition and Growth Prospects of PRC Enterprise Groups"]

[Text] The upsurge of PRC enterprise groups originated with the beginning of lateral economic alliances in the early 1980's. The 1986 "State Council Provisions on Certain Issues Concerning Further Promotion of Lateral Economic Alliances," pushed transregional and transdepartmental lateral alliances of PRC enterprises to a climax. Starting with the 1987 "Temporary Provisions on Large Industrial Joint Ventures Listed in State Plans," relations within listed alliances became closer and enterprise groups grew rapidly. Statistics from the State Restructuring of the Economic System Commission show that by the end of 1988, the PRC had 1,539 alliances that were named the best enterprise groups in the country, including up to 100 well-qualified large enterprise groups which were expanding increasingly in industrial and regional distribution. Of these, 49.3 percent were industrial; 3.1 percent were in the construction industry; 4.8 percent were commercial; 0.2 percent were in the communications industry; one percent were in the farming, forestry, livestock, and fishery industries; 3.8 percent were in service trades; 0.6 percent were financial institutions; and 2.3 percent were foreign trade. There are now 15 enterprise groups that are officially listed in state plans, including three in the automobile industry, one in the tractor industry, five in the power generation, transmission, and transformation industry, one in the electronics industry, two in the computer industry, one in the motorcycle industry, and two in the new materials industry. Certain enterprise groups are also listed in relevant provincial and municipal plans.

### Successes and Issues

The emergence and development of enterprise groups in PRC economic life achieved the following remarkable successes:

**It attacked our traditional system of economic management and speeded up the deepening of reform.** Although the development of groups originated in the "three constant" lateral economic alliances, the economic characteristics of groups per se determined that their development process would violently attack our old, conventionally carved up management system and, therefore, speed up the deepening of reform. It can thus be said that reform produced groups and groups speeded up reform.

**It helped enterprises operate on a more economic scale.** The development of groups enhanced the technical and productive capabilities of enterprises, speeded up standardization and specialization, and constantly pushed



enterprise production capacity closer to the optimum size. Enterprise mergers and alliances also made it possible for enterprises to operate on a more economic scale. For instance, since the formation in the automobile industry of the three large Nos 1, 2 and Heavy automobile groups, their annual output has accounted for 70 percent of directive plans. Operating on a more economic scale improved the economic efficiency of enterprises and made them more competitive.

**It speeded up technical advances.** Enterprise groups were the product of alliances, and development of groups also tightened alliances. Many economic alliances emerged first on the basis of S&T. Quite a few colleges, universities, and scientific research institutions formed alliances with enterprises to jointly develop new products. The growth of groups developed this form of alliance to a higher level. The strong helping the weak and the best supplementing the worst within groups, further speeded up technical advances in backward regions and enterprises.

**It helped us to capture international markets and develop transnational corporations.** The development of enterprise groups made our enterprises more competitive, gave them the strength to break their products into international markets and begin to invest in setting up factories overseas, and helped us to develop transnational corporations.

**It has become a tie-in between planning and market forces and our macro- and micro- economies.** As our socialist economy is a planned commodity economy, how to bring the advantages of a planned economy into full play while not neglecting market regulation, is a current issue that urgently needs to be studied. The industries, such as the automobile industry, which have done the best job of developing enterprise groups in recent years, have found a tie-in between planning and market forces. The formation of large enterprise groups, such as the Nos 1, 2 and Heavy automobile groups, has enhanced the state's macroeconomic control capability and brought the key role of large enterprises in the national economy into full play, while enabling small products and enterprises which do not affect the national economy and the people's livelihood, to be regulated by market forces. This kind of structure has now begun to take shape. The enhancement of planned control over large enterprise groups has reflected the nature of socialist planning and strengthened the state.

The technical, scale, and fund advantages of enterprise groups, have made outstanding contributions to the sustained, steady, and coordinated development of our national economy. Under our current grim economic conditions in particular, many enterprise groups have become the pillars of their industries.

Although the development of enterprise groups has achieved these successes, the following issues still exist:

**Macroeconomic control over enterprise groups is in chaos.** Some enterprise groups are reorganized administrative

companies, others are loosely organized alliances that are called groups, and still others are rigidly pieced together with absolutely no inherent economic links in order to win preferential state policies. The major cause of this issue is that the state economic management sector has neither set forth in detail the concept and characteristics of enterprise groups or the significance and effects of developing them, nor conducted conscientious studies of their development and objective economic laws. This theoretical lag has affected their actual development, caused many bogus ones to be formed carelessly when economic conditions are good, and then break up just as quickly when economic difficulties are encountered, and created the phenomenon of "9 out of 10 groups being without substance."

**Enterprise groups are too loosely tied together.** As our enterprise groups developed along with our development of a commodity economy, in line with our economic system reforms, and on the basis of our lateral economic alliances, they are too loosely tied together because the PRC economic system is still in a transitional stage in which the old system has still not been eliminated, while the new one has not yet been established. Lateral alliances are tied together only by technical and specialization cooperation and, in the final analysis, enterprise groups are formed mostly to produce brand name, high-quality products. They are not tightly linked by funds, and many of them lack a nucleus of merged capital and management.

**It has been hard to break out of the "three constant" bind.** Although enterprise groups emerged from the "three constant" lateral alliances, the highly centralized form of groups requires that they break out of the "three constant" bind. The "conventional carved up" fetters of our management system, make it hard for enterprises that are in the process of merging to change their subordinate relations, means of revenue payment, or form of ownership, and is a key factor in keeping them from developing to higher levels;

**The lack of backing by banks makes it hard for enterprises to become group investment centers.** Many powerful enterprise groups abroad have strong backing from, and control and hold stocks with, banks. Whereas PRC enterprise groups have very little bank backing. Some are backed up by only a single unsound financial institution, which functions only for internal financing but not for overseas investment. This is bound to have a detrimental impact on externally oriented development and transnational management of enterprise groups. Without financial backing, it is very hard for enterprise groups to become investment centers.

#### **Remedies and Prospects**

1. **Macroeconomic control must be enhanced.** The first things that need to be enhanced are theoretical studies on enterprise group management and strict limits on the concept and characteristics of enterprise groups. The state should put into effect various economic policies

based on national economic development needs, in order to enhance its macroeconomic control over the national economy.

2. Enterprise groups should be better tied together, developed, and shaped into genuine ones. Capital and management must be merged into a nucleus, to be regarded as the parent company and become the investment center. Moreover, relations between banks and groups must be strengthened, and bank-enterprise groups must be developed in line with international practice. This process must be in line with national conditions in the PRC, while drawing on overseas, and particularly Japanese, experience in developing enterprise groups, in order to develop a new structure for PRC enterprise groups.

3. The theory and practice of enterprise group development in the PRC must be studied and explored, and efforts must be made to break out of the "three constant" bind as quickly as possible. Although the formation of shareholding enterprise groups is now a key way to break out of the "three constant" bind (as suggested previously), shareholding is still in a testing stage in PRC economic development. Whether the development of enterprise groups can be combined with the theory of the contract management responsibility system, which has already developed and matured, is well deserving of further study by theoretical circles.

4. Everything possible must be done to invigorate large enterprises and enhance the vitality of key enterprises in enterprise groups. Large state-owned enterprises are the mainstay of the national economy, the nucleus of enterprise groups, and the key to organizing and developing enterprise groups. The state must give large enterprises more decisionmaking power, so that they can truly become independent commodity producers and managers which are solely responsible for their profits or losses. Large enterprises must also enhance their own management, fully tap their potentials, and strive for higher efficiency through better management. Moreover, along with its austerity policy, the state must also slant its funding, energy, raw materials, and transportation policies to help large enterprises overcome their problems. Only this will give large enterprises the cohesiveness and appeal to become the nuclei of enterprise groups.

5. Enterprise groups should become the main force in our future national economy, and our national team for breaking into international markets. Along with the current campaign to improve the economic environment and rectify the economic order, the state has clearly slanted its policies toward large enterprises. Thus, there are bright prospects for enterprise groups.

As the emergence of enterprise groups was the inevitable outcome of the development of a commodity economy, they are certainly likely to make the following further advances along with the development of our socialist commodity economy:

- become the dominant force in our national economy;
- become an effective force to strike down our old management system;
- become the national team for breaking into international markets through "joining strengths" to develop towards diversification, external orientation, and transnational management;
- infiltrate financial circles and emerge before long as joint controllers and holders of stocks with banks;
- motivate further studies of and develop in line with shareholding system theory.

Looking forward to the future, there are bright prospects for the development of enterprise groups. A large number of internationally competitive and well managed large enterprise groups will certainly emerge in the PRC in the not too distant future, and play a key role in maintaining our position as a world power.

#### **Statistical Department Director Analyzes Economic Management**

*90CE0392A Beijing JINGJI RIBAO in Chinese  
19 Jul 90 p 1*

[Article by Zhang Zhongji (4545 6988 1015), Director of the Comprehensive Statistics Department in the State Statistical Bureau: "Manage the Macroeconomy Well, Release and Stimulate the Microeconomy"]

[Text] To organically integrate the plan and the market, the key problem is, while establishing a powerful state macroeconomic regulation and control system, to foster a perfected socialist commodity market. For this reason, the state should, by various means, manage the macroeconomy well and release and stimulate the microeconomy.

The state must keep in mind the overall situation in the macroeconomy, and manage well the major aspects of it. One aspect is to formulate medium- and long-term strategies for economic development that suit China's national condition and that are practical and feasible, to stipulate the direction and goals of economic development as well as the major economic and technological policies, and to determine the appropriate rate of economic growth. The other aspect is to balance well society's total supply and demand; to balance well the financial, credit, foreign exchange, and materials aspects, as well as the links between them. We must, based on the probable growth in society's total supply, appropriately arrange the total scale and direction of investment in construction, and the size of the rise in the people's material and spiritual levels. We must also organize the coordinated development of the economy's main proportions, rationally deploying resources, and perfecting the economic mix, industrial mix, and product mix, as well as the regional disposition of productive forces; and also, based on the production and distribution of the most important products needed that

relate to the national economy and the people's livelihood, put into practice directive-type plan management. On this foundation, the microeconomy will be released and stimulated step by step in order to increase the vigor of enterprises.

Conscientiously strengthen and perfect macromanagement, and gradually establish and safeguard the normal economic operational order. We must gradually establish and perfect the decision-making system and the decision-making procedures for a people's livelihood, scientific macroeconomy, including the links of information, demonstration, decisionmaking, execution, coordination, supervision, and feedback. We must also establish a powerful macrocommand system, consciously making use of the role of various economic levers, integrating effective administration and management with flexible measures of market regulation, improving the capability for macroregulation and control, timely and keenly observing the evolution of the situation, and constantly correcting deviations that could appear. We must, based on China's national condition, as quickly as possible set up a social security system that includes labor employment, mitigating the contradictions brought by economic adjustment, setting people's minds at rest, and insuring that the necessary readjustments are made.

The public ownership economy must also actively take part in market regulation. Economic activities are intricate, and are economic actions of the main part of the microeconomy (enterprises and residents). We cannot entirely depend on planned arrangements, but, to a very large degree, it is a matter, based on market information, of making our own choices. Therefore, in the long-term view, the scope of market regulation should cover the entire society. In 1988, of China's gross industrial output value, industry under the ownership of the whole people accounted for 56.1 percent, collective industry 35.7 percent, and the total of the two for 91.8 percent; urban and rural individual industry for 4.8 percent, and the "three capital sources" [foreign capital, overseas Chinese capital, and Hong Kong and Macao capital] enterprises and other economic types of industry for 3.4 percent. In China's total retail sales of commodities, the enterprises under ownership by the whole people accounted for 39.1 percent; the collective enterprises, 33.2 percent with the total of the two being 72.3 percent; urban and rural individuals 18.6 percent, retail sales by peasants to nonagricultural residents accounted for 8.6 percent, and other economic types, 0.5 percent. These figures show that, whether in the production field or the circulation field, the socialist publicly owned economy enjoys absolute superiority. To truly display the market's regulatory role, we must let the various types of economic enterprises become relatively independent commodity producers and administrators, which will be able, under equal conditions, to actively take part in market competition. In particular, enterprises under ownership by the whole people must display the leading role and exemplary role, prevent blindness and destructiveness that

could occur in market regulation, take the lead in building well the commodity economy and the spiritual civilization, and with quality and reputation vying for markets, strive for profits by lowering costs and improving efficiency.

We must consciously apply the law of value. Since reform and opening up to the outside world, China's market factors have gradually permeated every aspect of economic life. Now, in the buying and selling of consumer goods, except for a very small number of important consumer goods that come under contract fixed-quota purchasing or are supplied by vouchers, the great majority of consumer goods come under free-selected purchasing or negotiated purchase and negotiated sale. The market for means of production is expanding, and about 40 percent of the enterprises' raw materials is purchased at market price. However, no matter what form is adopted, consideration must be given to the relationship between supply and demand on the market and to the conscious application of the law of value. Although the directive-type plan has a compulsory nature, under the current pluralized structure of the main interest bodies, the state's decision making and plans must take into consideration the law of value and the interests of all sides when making overall plans. The guidance-type plan even more needs, on the basis of abiding by the law of value, to depend on the economic policy and the economic levers for the promotion of its realization.

We must vigorously but safely promote the reform of the price system. The core of market regulation is the price mechanism. Only when the prices of various commodities can reflect their values and the relationship between supply and demand can market regulation operate effectively. At present "dual track" prices exist in China, seriously violating the principle of exchange at equal value and seriously distorting the price signals. The more important and in demand a product is, the bigger its proportion in plan allocation and the lower its average price; the more a product is "long line," the smaller its proportion in plan allocation, and can be sold through the market at a high price. According to calculations, the proportions of the products sold at fixed prices (including local temporary prices) of each industrial department are: electricity, 95.8 percent; coal, 94.4 percent; metallurgy, 72.9 percent; building materials, 52.4 percent; chemical industry, 51.3 percent; and machinery, 40 percent. This way of doing things is unfavorable for the rational distribution of resources, and is also unfavorable for enterprises to compete under equal conditions and achieve the survival of the fittest. At the same time it aggravates the chaos in the circulation field, causing the intermediate links to lend money at usurious rates and causing corruption. Therefore, we must vigorously but safely promote the reform of the price system. Of course, because the elasticity in the supply and demand of many products in short supply is very small, and because the latent demand is still extremely high, price reform must be carefully carried out in a measured way.

With regard to a tiny minority of basic necessities of life, we still should supply them in limited quantities at fixed prices; the prices of non-basic necessities of life can be appropriately loosened from controls, and among them the prices of some high-grade consumer goods and luxury goods can be set free and put on the market at will. With regard to certain means of production, after a specific period of time, we can maintain a rough balance in supply and demand, and a basic approach to the difference between the plan price and the market price. We should not lose the opportunity to abolish the "dual track" prices of these products. Where they cannot be abolished all at once, commodities outside the plan should uniformly be put on "public sale," and market management strengthened to avoid buying and reselling at a profit.

Of course, the establishment of a macroeconomic regulation and control system in which plan and market are organically integrated, and in which there are economic operating mechanisms, is a fairly long-term, gradual process that requires a constant improvement and perfection of the existing system. We must grasp the opportunity to vigorously push forward reform and head for the final goal, and also must judge the hour and size up the situation, guarding against impetuous, rash advances.

### **Socialism, Commodity Economy Discussed**

HK2507054890 Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 6, 20 Jun 90 pp 3-11

[Article by Gu Shutang (6253 2579 1016) and Chang Xiuze (1603 0208 3419) from the Nankai University Institute of Economics: "A Brief Discussion on Socialism and Commodity Economy"; edited by Song Jian (1345 1696), dated May 1990]

[Text] The relationship between socialism and commodity economy is one of the most difficult topics in the study of socialist political economy; it is also a basic theoretical issue that cannot be evaded in economic structural reforms in socialist countries. Ten years ago we made a preliminary study of this issue and, on this basis, stated our views on relevant issues.<sup>1</sup> After 10 years of reform, problems that have cropped up in the course of practice and subsequent reflections and discussions by theoretical circles have prompted us to apply ourselves once again to the question of "socialism and commodity economy." Of course a question of such proportions cannot be clearly expounded in a single article. Here, we will briefly discuss our basic views on a number of issues. We are calling this a brief discussion because detailed analysis is not possible here.

#### **1. Overall Views on the Relationship Between Socialism and Commodity Economy**

The relationship between socialism and commodity economy finds concentrated expression in the question of whether the two can be combined, or whether they are

compatible. It should be admitted that people's understanding of this question has gone through a process of evolution in the course of practice. This evolution includes the taking over, revision, expansion and development of the theories of commodity economy put forward by authors of classics.

Marx and Engels were advocates of the "incompatibility" of socialism and commodity economy. To them, commodity economy was associated with private ownership and was incompatible with socialist public ownership. Hence, "commodity production will be eliminated once the society comes into possession of the means of production."<sup>2</sup>

After sustaining setbacks during the period of military communism when commodity exchange was abolished, Lenin put forward the following rather striking idea: "We will never be swayed by 'sentimental socialism' or old Russian, semi-noble, semi-peasant and patriarchal sentiments which look down on commerce."<sup>3</sup> Here, Lenin meaningfully referred to the "doctrine" that looked down on commerce as "sentimental socialism." Around that time, Lenin fully affirmed the role of commodity and money during the transition from capitalism to socialism in his writings and relevant documents. His theoretical contribution in so clearly answering the question of how commodity economy should be dealt with after the seizure of political power by the proletariat is not to be underestimated. However, what Lenin dealt with at that time was the transition from capitalism to socialism. He did not touch on the relationship between commodity economy and socialism after socialist relations of production were basically established. In this sense, the historic issue of opposition to "sentimental socialism" has not been ultimately broached.

Stalin had made some progress on the question of understanding the relationship between socialism and commodity economy, but his understanding was far from thorough. On the one hand, he saw the inevitability of the existence of commodity production within given limits due to the coexistence of two different forms of public ownership in a socialist society. On the other hand, he stubbornly maintained that the operational scope of commodities was restricted to personal consumer goods. He did not see capital goods as commodity and refused to recognize the regulatory role of the law of value in the sphere of production. This is where the basis of "Stalinist" theories lies. If we are to analyze the main reason for the lack of vitality found in the economies of socialist countries during the past few decades, we would say that this theory is a contributing factor.

Economic structural reforms in socialist countries which started in the 1950's came as a challenge to conventional economic theories. After the historic debate in the early 1980's, the CPC Central Committee unequivocally pointed out in its decision on the reform of the economic system in October 1984 that the socialist planned economy must consciously rely on and apply the law of

value and must be a planned commodity economy based on public ownership. Subsequently, the report to the 13th CPC National Congress further affirmed the theory that "the socialist economy is planned commodity economy based on public ownership." There may be different views as to how this theory is to be judged, that is, whether it is a major development of Marxism by the CPC, whether it is a scientific condensation of socialist economy, and whether it is the theoretical basis for the reform of the economic system in China. Our answer, however, is in the affirmative. Today, when reform of the economic system is faced with new situations, our answer to the question of whether or not this theory should still be upheld is also in the affirmative.

We insist on developing a "planned commodity economy," that is, we insist on the "welding" of socialism and commodity economy not because we have any special, subjective "preference" for commodity economy. We think that since socialism and commodity economy objectively belong to different categories of alignment and do not constitute a typical unity of contradictions, there is naturally no fundamental antagonism between them. Besides, commodity economy is a form of social and economic organization organized automatically through the market under conditions of social division of labor. It exists in several forms of society after the emergence of social division of labor, and is linked with the system of ownership practiced in the society concerned. It is not a special organizational form of social production under particular economic systems. Rather, it is a highly adaptable, or "neutral," mode of production.<sup>4</sup> Its "neutrality" lies in the fact that it may be associated with private ownership as well as public ownership. This shows that socialism and commodity economy are not mutually exclusive. They may coexist in a socialist society. Since they can exist side by side in real life, links will unavoidably be developed between them. The marriage of commodity economy and socialism produces a new type of commodity economy. "Socialist planned commodity economy" is the theoretical expression of such a marriage.

While emphasizing the compatibility of socialism and commodity economy, we should not forget the disparities and contradictions between them. If we underestimated and mishandled these contradictions, conflicts and friction will still occur (the specific details of these contradictions will be analyzed in the following sections). During the past 10 years, economic theorists have devoted much time and energy exploring the compatibility, or unity, between socialism and commodity economy in the light of views handed down over the past 100 years which pit the two against each other. This is understandable. However, the disparities and contradictions between the two have been neglected in recent years. Hence, once contradictions crop up between the two in actual economic life, the once silenced view which saw them as incompatible will emerge once again under new historical conditions. This appears to be a refutation

of the theory of the combination of socialism and commodity economy, but it also reflects that the theory of socialist planned commodity economy still awaits further deepening and improvement.

At present, the reform of economic system in China is in some form of "impasse." The view of the irreconcilability of socialism and commodity economy thus finds overt or covert expression in two entirely different forms and in two extremes: One extreme is to put lop-sided emphasis on commodity economy and "play down" the role of socialism; the other extreme is to negate commodity economy once again in the name of "upholding socialism." These two tendencies appear to be antagonistic, but in fact they are cut from the same cloth, as they both argue that socialism and commodity economy are opposite ends of the scale. It is obvious that both tendencies are unfavorable to the building of socialism with Chinese characteristics. We do not subscribe to these tendencies, and we still uphold the basic theory of "socialist planned commodity economy." Here, the important thing is that we must find the way to combine socialism and commodity economy and properly resolve the contradictions between them. We must curtail blind actions in the development of commodity economy while improving the socialist economic system in order to fully bring into play their superiority and potential and promote the vigorous development of socialist economy.

## 2. Public Ownership and Commodity Economy

In studying the question of the compatibility between socialism and commodity economy, we must first resolve the question of compatibility between public ownership and commodity economy. This concerns the internal structure of the economy, which is deeper than the operational level.

Although Marx and Engels never did use the notion of "ownership by the whole people," there is no question that they advocated that the means of production be "converted into common property, into the property of all members of society."<sup>5</sup> This kind of property which belongs to all members of society gives people completely equal rights in the means of production. This was perhaps precisely what Marx and Engels meant by socialist public ownership. In the public-owned economy envisaged by Marx, labor only had its "direct social character," and the only function of labor time was as "a yardstick for the measurement of labor." For this reason, Marx pointed out that in exchange for equal amounts of labor in public-owned economy and exchange of equal value in commodity, although "the same principle of regulatory commodity exchange (referring to exchange at equal value) is in force," "the contents and forms have both changed."<sup>6</sup> It was probably based on the fact that "the contents and forms have both changed" that Marx and Engels thought that commodity economy would cease to exist once the means of production came under public ownership. The practice of socialism at the present age shows that although socialist labor has



already acquired a certain degree of direct social character when perceived from the social angle, it still belies its character as a personal means of livelihood when seen from the personal angle of laborers. This implies that laborers are bound to demand that labor be tied to remuneration. The economic relationship of labor as a means of obtaining the means of livelihood not only exists in the initial stage of socialism. Even in the intermediate or developed stages of socialism, a quantitative limit for distribution will still be needed as long as social productive forces have not been developed to an extent where the actual needs of laborers will be fully satisfied. Besides, in socialist societies, great disparities still exist between simple and complicated labor, and between physical and mental labor. This determines that labor is destined to become a means for obtaining personal material benefits. The nature of labor as a means of livelihood under the public ownership system is precisely the crux of the compatibility between public ownership and commodity economy under our study.

In a pure sense, the objective requirements of labor as a means of livelihood means that remuneration for labor will become the only source of livelihood for laborers and their family. This is the source of the personal material interests of laborers. Laborers are organized to perform labor jointly in enterprises. We cannot recognize the personal material interests of laborers without recognizing the collective material interests of laborers working together in enterprises. This also shows that under socialist public ownership, labor not only has "direct social character" but has "partial social character." Although this partial social labor cannot be equated with personal labor, it still involves the question of conversion into total social labor. The view that such labor no longer displays its social character in a materialized form, that its social character is displayed in a direct form instead, is too "idealistic." This disparity in material interests arising from the treatment of labor as a means of livelihood is precisely where the root of socialist commodity economy lies.<sup>7</sup> The fact that commodity economy has its roots inside the socialist public-owned economy means that even in terms of interest relations at the deeper levels, public ownership and commodity economy are compatible and are not out of conformity with each other.

The view of the combination of public ownership and commodity economy is not a mere theoretical inference but, more importantly, is a conclusion drawn on the basis of prolonged tests in the course of history. History has proven that a country that seeks to lift itself from the state of undeveloped social productive forces and proceeds to achieve a high degree of socialization and modernization must go through the development stage of commodity economy. It will be punished by objective laws of development if it arbitrarily tries to skip this stage. Even if a particular country or nation in this world could skip the development stage of capitalist private ownership, socialist public ownership established directly without going through the stage of capitalist

private ownership still cannot skip the stage of commodity economy. Moreover, socialist public ownership can only be improved step by step in the course of the development of commodity economy. All views and practices which pit public ownership and commodity economy against each other are not in conformity with historical development.

However, this does not imply that we can overlook the disparities and contradictions between socialist public ownership and commodity economy. On the theoretical level, the disparities and contradictions between socialist public ownership (here we refer to socialist ownership by the whole people) and commodity economy mainly find expression in the following three areas: First, the contradiction between the fact that economy under ownership by the whole people attaches importance to the totality of economic interests and the fact that commodity economy strives to achieve independence of economic interests. Second, the contradiction between administrative subordination within the structure of ownership by the whole people and equality required by commodity economy. Third, the contradiction between the organized nature of economic development under ownership by the whole people and the blind spontaneity demonstrated by commodity economy in given situations.<sup>8</sup> In short, there are indeed disparities and contradictions between economy under ownership by the whole people and commodity economy. It is not in keeping with objective reality to obliterate (or exaggerate) these contradictions.

Due to the presence of disparities and contradictions between public ownership and commodity economy, in actual economic activities, we must pay particular attention to mitigating and overcoming their disparities and contradictions while trying to consolidate and develop their compatibility. The basic way to tackle this task is to "make appropriate readjustments separately and make them mutually supportive." Specifically, this involves a two-step approach:

First, we should readjust and reform the existing public-owned economy in accordance with the requirements of commodity economy. Other than effecting the transfer of property rights in a number of small state-owned enterprises and turning some of the state-owned enterprises into joint-stock enterprises which include shareholding by the state, toward enterprises which should be kept under ownership by the whole people, we should chiefly reform the traditional mode of "state-owned and state-run" operation. Through "the separation of two powers," we should redefine property rights under ownership by the whole people to meet the needs of the development of commodity economy.

In readjusting the internal structure of the economic sector under ownership by the whole people, we may adopt a method for "the separation of two powers" which resembles the letter Z. The first step is to effect the horizontal separation, that is, the separation of ownership of assets owned by the whole people in the legal

sense and ownership in the economic sense between units under ownership by the whole people and departments charged with the management of state assets. The second step is to effect the vertical separation, that is, the separation of economic ownership and actual possession (and power of operation) of assets under ownership by the whole people between departments charged with the management of state assets and enterprises. The third step is to effect yet another horizontal separation, that is, the separation of actual possession and power of operation of assets under ownership by the whole people between the board of directors (or management committee) of an enterprise and its director (or manager).

Through the above ways of separation, we can reshape the internal structure of the economic sector under ownership by the whole people, and clearly define the relationship between ownership in the legal sense and ownership in the economic sense, actual possession, and power of operation, so enterprises will have analogous boundaries for property rights. In this way, we will be able to form a kind of public ownership that suits the development of commodity economy, and hence open broad vistas for the development of commodity economy.

Second, while reforming the conventional mode of ownership by the whole people, we should also readjust and guide the commodity economy in accordance with the intrinsic requirements of public ownership to meet the needs of socialist public ownership. First, we must guide the commodity producers and operators in such a way that they will give as much thought as possible to the overall and long-term interests of society as a whole while protecting their own material interests. When local interests come into conflict with overall interests, in particular, they must consider and handle matters from the perspective of overall interests (of course the society must consider giving them appropriate compensation). Second, they must consciously subordinate themselves to the guidance and regulation of state plans and overcome blindness in given situations in the operation of commodity economy. Third, they must clearly define the scope of commodities, and prevent items not classified as commodities that should not be commercialized from entering the sphere of commodity exchange. In particular, efforts must be made to prevent the tendency of "the commercialization of power." We must soberly recognize that this qualitative requirement of socialist public ownership fundamentally determines the socialist character of commodity economy. Commodity economy of this nature must be able to show that it is distinctly different from small commodity economy or capitalist commodity economy.

### 3. Planned Economy and Commodity Economy

The relationship between planned economy and commodity economy in the broad sense covers the following three interrelated levels: (1) The relationship between the two economic forms of planned economy and commodity economy. (2) The relationship between the law of

planned development and the law of value reflected by these two economic forms. (3) The relationship between the two regulatory mechanisms of regulation through planning and market regulation derived from the two economic forms and two economic laws.

According to the authors of Marxist classics, the socialist society works like a big factory. It assigns social labor to various sectors through a comprehensive plan which covers social production as a whole, and directly organizes production and distribution of products in the whole society. The concept of planned development advocated by Marx with a view to eliminating the anarchic state of production and economic crisis, the theory put forward by Lenin that "planning means the conscious maintenance of proportions," and the management system of "mandatory planning" championed by Stalin, all refer to planned economy, the law of planned development and the mechanism of regulation through planning in the pure sense, although the way put these notions were not the same and their specific lines of thought differed. These three aspects in the pure sense have strict prerequisites: (1) The interest prerequisite. The material interests of all members of society have been blended and cast into "an iron plate" that need not and indeed cannot be separated. The whole society is in "a state of nondisparity," without any disparity or conflict of interests. (2) The technical prerequisite. The society has strong planning power, managerial power and the power of control over economic matters. Because it can accurately calculate and control total social demand and supply and their specific constitution, and can accurately grasp the standard of labor expended on every product, it can also formulate a perfect system of planning targets with which to regulate production and distribution in the whole society. However, practice posed a challenge to the conventional concept and system of planned economy. It tells us that the system of planned economy which conforms with scientific requirements is a management system that can consciously maintain efficient development while preventing imbalance between major economic sectors. A pure system of planning which rejects the market mechanism cannot achieve this objective. Hence, the establishment of a system that differs from the highly centralized system and which closely combines planning and the market becomes an historical inevitability. The theoretical basis for this new system which combines planning and the market is the planned commodity economy. We put forward the following concept in 1982: The fact that socialist economy is a planned commodity economy "does not imply that socialist economy must be cut into two parts, one part being the planned economy and the other part being the commodity economy. Rather, we should see them as they really are—two sides of the same thing, or the dual character of one and the same thing as seen from different angles. The planned economy reflects the intrinsic characteristics of the national economy as a whole in consciously organizing economic movements in accordance with objective proportional requirements, while the commodity economy reflects the

characteristics of scattered and relatively independent entities of commodity producers in joining forces for development through exchange at equal value. They are not mutually exclusive. They can preserve their differences and coexist within an organic entity."<sup>9</sup> It was precisely on the basis of this analysis that we believed the mechanism of regulation through planning and the mechanism of market regulation can be combined. The operational fabric of the planning mechanism is to directly let the "social center" make conscious arrangements of labor time from the social angle on the basis of the common possession of the means of production. The operational fabric of the market mechanism is that proceeding from the angle of commodity producers and through market competition, it can promote the economy of labor time (competition in the production of the same commodity) and distribute social labor between different sectors of production (competition in the production of different commodities). It can thus be seen that although the two mechanisms have different angles and internal fabrics, they are identical on the points of "deployment of resources" and "economy of labor." It is precisely because they "speak the same language" in these aspects that they can be combined in the socialist economy.

The two mechanisms have their strong points as well as drawbacks and weaknesses. The crux of the problem lies in finding a combination that can carry forward their strong points while containing their weaknesses. Theoretical circles have made many probes to find the ideal mode of combination over the past 10 years, and have come up with the following representative modes: (1) Combination of direct and indirect management. (Again there are different suggestions, such as ensuring the leading role of planning supplemented by the market, ensuring the leading role of the market supplemented by planning, and putting the two on a par. (2) Infiltration and colloid (the two mechanisms are mixed or even blended into one). (3) "Two-tier regulation" (with the first regulation being carried out through the market and the second one being carried out through the government). (4) "Double coverage" (both mechanisms cover the whole society, and the combination of planning and the market is an organic one). Although these modes all have their own bases, there are problems requiring further probing.

We are proponents of "the theory of the comprehensive system" in the combination of planning and the market. Ten years ago, in an article entitled "On the Combination of Planning and the Market in the Socialist Economy," we pointed out: "The combination of planning and the market in socialist economy is a complicated and intertwining synthesis. It is not one form of combination, but is the sum of several forms of combination, with major combinations containing small combinations."<sup>10</sup> After 10 years of practice and theoretical explorations, our present understanding has been deepened. Our present view may be summed up into the

following three points: First, seen as a whole, the combination of planning and the market is not the combination of direct and indirect management, but represents the coincidence of double coverage. Since socialist economy is a planned economy and a commodity economy at the same time, the law of planned development and the law of value naturally run through its length and breadth, and the planning and market mechanisms cover all aspects. If we fail to see this overall "double coverage," it is highly likely that we will return to the viewpoint of "one part being planned economy and the other part being commodity economy." Second, the overall "double coverage" does not imply that the functions of planning and the market are identical. Classification is still necessary here. For instance, with regards to the production of major products of vital bearing to the national economy and the people's livelihood as well as enterprises handling these products, direct control by the state should not be completely ruled out. In other words, although the state may rely on the market to control enterprises (the majority of them), it should retain direct control over some enterprises. The formula of "the state regulates the market, and the market guides enterprises" is worth trying out as it expresses the basic line of thought that the state should control enterprises through the market. However, this formula is not without its catch, as it has not addressed the need for the state to retain necessary direct control. When this formula was discussed several years ago, the majority of our comrades in the theoretical circles who basically subscribed to this line of thought did not totally reject direct control of enterprises by the state. This is a self-evident fact. Third, whether enterprises are regulated by the state through the market, or directly controlled by the state, it is no longer market regulation or regulation through planning in the pure sense that is at work. The reason is that in the control of enterprises through the market, it is chiefly through market parameters and market signals that the economic activities of enterprises are guided. This looks like market regulation on the surface, but the state must predict long-term changes of market parameters in planning and must adopt corresponding industrial policies and other necessary measures to exert its influence over changes in market parameters. This is what is meant by the influence of "state preference" on changes in economic parameters. In such situations, regulation through planning and market regulation are combined. As to enterprises directly controlled by the state, they are also not subject to the traditional practice of regulation through planning where no distinction was made between government and enterprise functions. The regulation of these enterprises must also be carried out in accordance with the internal laws of commodity economy. Here, regulation through planning and market regulation are also combined.

The above target models on the operation of socialist economy are theoretical propositions for a more developed commodity economy. It does not mean they can be directly applied in practice. Between theory and practice,



there must be a transitional model of combination that is realistic and practicable. If we say that the target model points the direction for our present reforms, then the transitional model is the bridge leading to the target model. A transitional model must first have a clear-cut trend of development. Second it must proceed from reality and actual capability. At a time when the level of planning is still low and the market is not well developed, rash actions that may result in overall economic chaos due to lack of control must be prevented. Third, it must actively create conditions for the gradual expansion of the role of the market mechanism under the guidance of state plans without completely relinquishing necessary administrative control. The combination of the three forms of planned management which embraces mandatory planning, guidance planning and market regulation may be taken as the transitional model during the period of the supersession of the old system by the new. The specific application and proportional relationship between these three forms of management should differ according to different forms of ownership, different enterprises, different links and realms of social production, different industries and products, and should be regularly readjusted and perfected in the light of the actual situations in different periods.

#### **4. Distribution According to Work and Commodity Economy**

The theory of distribution according to work put forward by authors of Marxist classics had the dying out of commodity economy in socialist society as its basis. This is an important precondition for understanding and grasping the Marxist theory of distribution according to work today. The teachings of Marx and Engels on distribution according to work may be summed up into the following points: (1) Distribution as a whole is based on the basic notion that the whole society is a unit of distribution. In the course of distribution, there is no need to go through the "intermediate" link of enterprises, as the society (the state) directly engages in distribution to laborers. (2) In distribution to laborers, the principle adhered to is equal amounts of labor for equal amounts of remuneration, more pay for more work, less pay for less work, and he who does not work neither shall he eat. (3) "Labor" mentioned above refers to living labor, that is, the amounts of mental and physical labor expended by laborers, and does not include the accumulation of materialized labor. (4) In the course of distribution, the yardstick for measuring labor is labor time. Here, labor time refers to natural labor time, that is, hours or days. (5) The system of labor certificates is practiced. In studying the Marxist theory of distribution according to work, we should accurately grasp its original meaning and "return to distribution according to work in Marx's time." We should not try to "remold" Marx's distribution according to work as it is understood today.

In order to strictly adhere to distribution according to work in this sense, the following conditions must be

fulfilled: First, the means of production must be possessed equally by laborers in the whole society (only in this way will it be possible to eliminate disparity in labor due to differences in production condition). Second, the labor of each "association of free persons" must be "direct social labor right from the start." "The meddling of the famous 'value' is not necessary here." Third, a unitary system of regulation through planning should be practiced in the whole society, and the demarcation between necessary labor and surplus labor should be determined by society in a unified way. If any of the above conditions are lacking, it will be impossible for the Marxist concept of distribution according to work to be materialized to the letter. In present-day socialist practice, the conditions necessary for the realization of the Marxist notion of distribution according to work are incomplete. As far as the possession of the means of production is concerned, it is not yet possible for all means of production to be possessed by the whole society in the socialist stage. As far as labor conversion is concerned, labor performed by enterprises is not directly recognized by society, and they still must go to the market to have their labor products "converted." The demarcation between necessary labor and surplus labor is not wholly regulated by the state. Under such circumstances, there will be conflicts with the development of socialist commodity economy if we do everything "according to the book."

In studying the distribution of income to laborers in the socialist stage, we should combine the basic Marxist line of thought in analyzing the distribution of personal consumer items in socialist society with actual practice. The development of practice has pointed out a new possibility, that is, the principle of distribution according to work and commodity economy can coexist and have indeed coexisted in real life. It is not difficult to comprehend that such coexistence will unavoidably have an important impact on the form of distribution according to work and on parts of its contents, although the two basically follows the same principle. When planning and the market are both in operation, the influence of commodity economy on distribution according to work chiefly finds expression in the following aspects: First, in terms of the yardstick of distribution, equal amounts of socially necessary labor will, to a large extent, replace equal amounts of individual labor in given spheres and scopes. In realms where market regulation is fully operative, the principle of exchange at equal value is followed in the main. In other words, labor exchange is carried out according to socially necessary labor time. It is only in realms where regulation through planning dominates that the principle of equal amounts of individual labor still plays a leading role. Second, in terms of the modes of distribution, the society does not engage directly in distribution to individual laborers. Rather, first there is distribution by the state (society) to the labor collective—the enterprise, and then by relatively independent commodity producers to their staff and workers. Third, in terms of the forms of distribution, the original "materialized" form of distribution where

material products are obtained through labor certificates is replaced by the "commodity" form of distribution where cash is used to purchase commodities. All these show that there are major differences, both in letter and in spirit, between distribution according to work in present-day socialist economy and distribution according to work as envisaged by Marx.

The Marxist notion of distribution according to work has its given meaning and this meaning has been established through usage, and distribution according to work practiced in present-day socialist economy has its new characteristics. To distinguish the two, we have given the latter the new name of "distribution according to labor contributions."<sup>11</sup> This formulation still seems applicable today. However, it must be pointed out in particular that in the three forms or forms of realization of "labor," "labor capability," also known as labor in its potential form, should not be used as the principal criterion for the measurement of labor contributions. The reason is that labor in its potential form is just labor that can possibly be performed, not actual labor, and distribution according to potential labor cannot accurately reflect the quality and quantity of the labor actually put in by laborers. Neither do we subscribe to the idea of measuring contributions according to the floating form of labor. Although this method of measuring labor contributions has its theoretical significance, it is not very applicable in practice. The reason is that before labor is turned into social product or effective service, its actual contributions cannot have a universally acceptable social evaluation, and all evaluations are necessarily subjective. Based on the above analysis, we maintain that the fruits of labor should be distributed on the basis of the congealed form of labor. The fruits of labor are of course subject to conditions of labor, such as tools and equipment. However, if the state has, through macroeconomic policies of income distribution and other regulatory means, extracted to a given extent the surplus value obtained by enterprises through good production conditions so as to eliminate the "nonlabor" factors, the resultant form of labor is labor in the form of given quantity and quality of products, economy of raw and semi-finished materials, and service that can accurately reflect the quantum of labor furnished by laborers to society. Since the means of production are not yet completely owned by the whole society, it is not possible to totally do away with differential income resulting from possession (this applies to all three forms of labor). Compared with potential and floating labor, however, distribution according to actual labor contributions, that is, the value of products created, can better reflect laborers' real contribution to society. In the course of the economic structural reform in recent years, many Chinese enterprises have begun to explore into the possibility of tying their total wages to economic performance and letting them float on a pro rata basis. This may be seen as a form of distribution according to labor contributions developed in the course of practice. It has been demonstrated by practice that when objective conditions are roughly equal, this method can help tie the vital

interests of laborers to the performance of their enterprise in production and operation and can therefore help arouse the enthusiasm of the vast numbers of laborers and managerial personnel. The implementation of this method itself shows that commodity economy and distribution according to work can be combined.

We once said: "In socialist commodity economy, laborers have a dual status and role."<sup>12</sup> There is no doubt that laborers are masters of their enterprise and of the society. However, they are also performing the function of production factors. This does not mean that laborers have been turned into commodities. It just means that when they are performing their function as production factors, they have to go through the intermediate link of the market, that is, take part in the market operation, and hence their remuneration is bound to be affected by supply, demand and competitions. In the stage where the double-track system is in force, laborers on different tracks and their income disparity will assume two different forms. In the long term perspective, once the new system which features the internal organic combination of planning and the market has materialized, the distinction between these two forms will disappear. Distribution in the public-owned economy is likely to assume the new form of "distribution according to labor contributions" which is under the guidance of planning and subject to the influence of market supply and demand. However, a new form of distribution which suits the new situation cannot take shape overnight. It has to go through a fairly long process of development and evolution. During this process of evolution, the system of planned distribution cannot be abolished altogether. As an indicator of macroeconomic control, the state must still fix the total wages of enterprises. Since total wages are determined by the state, their level will naturally be conditioned by planning, and the market can only exert some influence at best. In the long run, this method of controlling the total volumes and levels by macroeconomic means of policies will change, and the role of market regulation will be gradually enhanced. Enterprises in general may "exercise self-determination in distribution," while the state may exercise control through taxation. Since the prevention of excessively huge disparities in income is an importance guiding policy, control through planning will continue. At present, we must continue to promote the transitional method of tying total wages to economic performance and letting them float on a pro-rata basis. At the same time, we must also continue to study the mechanism of distribution through the market and its applicability in order to find a new system of distribution that combines the mechanism of planned distribution and the mechanism of distribution through the market.

#### Footnotes

1. These views were put together in the book *Socialist Commodity Economy and the Law of Value* completed in June 1983. This fruit of research was first submitted to leading government departments in the form of an internal study report and was published after the Third

Plenary Session of the 12th CPC Central Committee. See Gu Shutang, Yang Yuchuan [2799 3768 1557], and Chang Xiuzhe: "Socialist Commodity Economy and the Law of Value," Shanghai People's Publishing House, 1985.

2. Engels: "Anti-Duhring," *Collected Works of Marx and Engels*, Vol 20, p 334.

3. Lenin: "On the Function of Gold at Present and After the Complete Victory of Socialism," *Collected Works of Lenin*, Vol 33, p 92.

4. Marx spoke of commodity production as a "mode of production" in many places. This is obviously different from the five "modes of production" we often talk about.

5. Marx and Engels: "Manifesto of the Communist Party," *Selected Works of Marx and Engels*, Vol 1, p 266.

6. Marx: "Critique of the Gotha Program," *Selected Works of Marx and Engels*, Vol 3, p 11.

7. See Gu Shutang and Chang Xiuzhe: "On Sun Yefang's [1327 0396 2455] 'Noncommodity Production' in the Public-Owned Economy—Also Commenting on the Reasons for Retaining Value-Relation of Commodities in the Economic Sector Under Ownership by the Whole People," "Commentaries on the Economic Theories of Sun Yefang," People's Publishing House, 1985, pp 199-201.

8. We think that commodity economy is spontaneous, but such spontaneity is not always equal to blindness. In some cases, this kind of spontaneity may be expressed as an enterprising spirit and initiative, but in others, it may be expressed as blindness. This blind spontaneity is in conflict with the development of the public-owned economy.

9. Gu Shutang and Chang Xiuzhe: "On the Characteristics of the Economic Form of Socialism," GUANGMING RIBAO, 15 August 1982.

10. Gu Shutang and Chang Xiuzhe: "On the Combination of Planning and the Market in Socialist Economy," *National Economic Readjustment and the Reform of the Economic System*, edited by the Editorial Department of JINGJI YANJIU, Shandong People's Publishing House, 1981, p 20.

11. See *Political Economy (Section on Socialism)*, (Northern Edition) Bei Fang Ben [0554 2455 2609], Chapter 6, 1988 Revised Edition, Shaanxi People's Publishing House, 1988, p 194.

12. See "Compendium of Socialist Economics," Chapter 13, *Distribution Behaviors of Socialist Enterprise*, Shanghai People's Publishing House, 1989, p 292.

## PROVINCIAL

### Zhejiang, Shanghai To Increase Economic Cooperation

OW0908090690 Beijing XINHUA in English  
0700 GMT 9 Aug 90

[Text] Hangzhou, August 9 (XINHUA)—Zhejiang Province and neighboring Shanghai City have decided to increase their economic cooperation.

A summary of the minutes of a meeting on this effort was signed here on Tuesday by Vice-Governor Wang Zhonglu and Vice-Mayor Gu Chuanxun.

The agreement involves joint development of the Pudong development area. Zhejiang will develop deep-water berths in the province to serve Shanghai, increase the supply of construction materials and other products for the municipality, provide skilled construction workers, coordinate its structural readjustment and technical upgrading with the readjustment of Shanghai's industrial structure, develop tourism and expand the production of non-staple food for Pudong.

## FINANCE, BANKING

### Realistic Role of Securities

90CE0278A Chongqing GAIGE [REFORM] in Chinese  
No 3, 20 May 90, pp 72-75

[Article by Gong Zhuming (1362 5511 6900): "The True Significance of Developing the Securities Industry in China"]

[Excerpts] [Passage omitted] In 1979 and 1980, fiscal deficits appeared and the program of reform and opening up liberated people's thinking, opening the way for China to begin issuing state treasury bonds in 1981. This marked the beginning of a new era in the history of financial development in China. By the end of 1989, China had issued nearly 100 billion yuan worth (cumulative total) of various types of government bonds, including state treasury bonds, capital construction bonds, and endorsed bonds. In addition, 20 billion yuan in bonds have been issued (by state-run banks), tens of billions of yuan in unregistered savings certificates (primarily savings certificates with premiums), over 20 billion in enterprise bonds, billions of yuan in enterprise stock, and unquantifiable sums of fundraising certificates or certificates of investment. It is estimated that China's government, banks, and enterprises have issued a cumulative total of roughly 200 billion yuan in various types of bonds. When the ones which have already been repaid are subtracted, we find a total of over 150 billion yuan worth of various types of bonds still in the hands of individuals and public institutions. Apart from issuing bonds, China has experimented during the course of fiscal reforms with bond circulation markets (secondary markets). Securities exchange desks were first set up in Shanghai and Shenyang, and then the People's Bank of

China and the Ministry of Finance approved the opening in two stages of state bond exchange markets in 60 cities. Statistics from the Ministry of Finance indicate that a total of 3.6 billion yuan worth of government bonds had been exchanged by the end of 1989. China's securities industry has gotten off the ground and is beginning to grow rather large. [passage omitted]

**I. Raising funds by issuing government bonds in order to make up for fiscal deficits can relieve pressure for increased money supply, thereby alleviating inflationary pressures.**

Since the reforms began at the Third Plenary Session of the 11th Central Committee, the state has had no choice but to offset relatively large gaps between income and expenditures by relying on its fiscal resources in order to support agricultural reforms, carry out rational readjustments of purchase prices for agricultural products, decentralize profits and power in an effort to revitalize enterprises, maintain price stability for commodities and services needed in daily living, and support foreign trade and the earning of foreign exchange. When China experienced a fiscal deficit for the first time in years in 1979, the state made up for the deficit by borrowing funds directly from the central bank. From that time through the end of 1988, China's fiscal departments borrowed a cumulative total of 57.6 billion yuan from the People's Bank. During the same period, the domestic debt income of the Ministry of Finance totalled roughly 50 billion yuan.

As everyone knows, although direct borrowing of funds from the People's Bank by the Ministry of Finance will not necessarily expand the money supply, it nevertheless increases pressure on the People's Bank to increase the money supply. The People's Bank has three primary funds sources (liabilities). The first is issuing currency. The second is savings deposits in the People's Bank from various banking institutions. The third is the funds of the People's Bank itself. If the utilization of funds (assets) is increased, sources must increase correspondingly. The funds utilization (assets) of the People's Bank are used primarily to provide loans to banking institutions, thereby supplying sufficient media for the circulation of commodities. If fiscal departments borrow from these assets as well, it forces the People's Bank to either reduce loans to banking institutions (thereby affecting the entire circulation sector) or increase its funds sources. There are only three ways for the People's Bank to increase funds sources. One is to issue more currency, a second is to increase savings deposits from banking institutions, and the third is to increase its own funds. The third method has great limitations, and will not resolve any major problems. The second method would entail increasing the reserve deposit requirements for banking institutions. In fact, we have done this in the past few years, but it can cause a shortage in the money supply, and we cannot allow the shortage to become too severe. In other words, we cannot give to the Ministry of Finance the loans that are meant for enterprises. Thus,

the only feasible option is the first one—issuing currency. For this reason, theoreticians and workers involved in banking are all opposed to allowing the Ministry of Finance to take loans directly from the banks. They argue instead that the Ministry of Finance should issue bonds in order to raise funds. If the Ministry of Finance's nearly 50 billion yuan in domestic debt income between 1981 and 1988 had all been borrowed directly from the People's Bank, then the People's Bank would have had to issue about an extra 50 billion yuan in currency, and inflationary pressures would have been even greater. Thus, we can say that the issuance of government bonds over the last few years has taken some of the burden off the People's Bank, and it did a lot to relieve inflationary pressures. Of course, it must be stated that whether we should issue government bonds or borrow funds directly from the People's Bank is purely a question of different techniques. The fundamental fact is that we must recover the greatest possible degree of fiscal balance.

**II. Using an investment instrument like bonds to absorb savings from individuals and enterprises will do more to control inflation than using bank deposits.**

Whether one goes by the Marxist equation for total money in circulation, or the monetarism of Western economics, one will come to the following deduction: the cause of inflation is excessive money supply. Therefore, both planned economies and market economies must control the money supply. Since the Federal Republic of Germany first set an annual target for the rate of growth in the money supply in 1974, every major Western nation has adopted the method of setting annual targets for the money supply growth rate (generally referred to as a monetary target), and they have employed various methods to hold monetary supply growth rates within set targets. Practice has proven that using this method of monetary control can effectively control inflation and price levels. Thus, through practice, the equation for total money in circulation and monetarist theory have been proven valid.

Since money supply must be controlled, we must be clear about what money is. The definition of money is clear: Any object which can serve as a medium of exchange, serve as a standard of value, payment deferral or wealth storage is money,<sup>1</sup> but in real life, it is not so easy to find a type of money supply which is measurable and meets the requirements of control mechanisms. For reasons of practicality, Western nations have settled on narrow and broad definitions of the money supply. The United States, for example, has defined three different types of money supply— $M_1$ ,  $M_2$ , and  $M_3$ .

The concept of money includes not only currency outside banks, but every form of savings as well. However, it does not include the various types of stocks and bonds. If a person had 1500 yuan and deposited 1000 of it in a savings account at the bank, those 1000 yuan would be

money, but the remaining 500 yuan which he uses to buy government bonds, corporate bonds, and stocks would not be money.<sup>2</sup>

Thus, we discover a great difference between savings and securities: Savings are money, while securities are not. Money must be controlled in order to prevent inflation, so the quantity of savings must also be controlled; it is not a matter of "the more the merrier." Securities, though, are not money and therefore need not be controlled. The experience of the United States also bears out this point. From 1982 to 1986, the amount of securities issued in the United States rose sharply (primarily the result of a jump in the quantity of government bonds issued), but the rate of savings growth was not fast. In other words, the growth rate of the money supply was not fast, so prices remained stable.

There are as yet no accurate statistics in China on the money supply, but the Investigations and Statistics Section in the headquarters of the People's Bank has carried out preliminary calculations and set targets for  $M_1$  and  $M_2$  money supply. Various types of savings are including in these targets, but securities are not included. The definitions of money supply in other countries are basically the same.

In China, savings deposits are likened to a "caged tiger." This surplus purchasing power could very well pounce upon the market, like a tiger out of its cage, causing panic buying. There is some validity to this imagery. It is what historical experience has taught us. In 1988, for example, even though individual savings were only lagging five percent behind the planned target by August, it caused a wave of furious panic buying. This showed that whether bank savings are time deposits or demand deposits, they are all in reality demand deposits. For example, if you take out an eight-year savings deposit. On the surface of it, this appears to be a time deposit, but when you really need the money, you can make an early withdrawal if you have valid documents and a certificate of deposit. The worst that can happen (and it is the same in other countries) is that you will forfeit a bit of interest. The fact that all bank savings deposits are really demand deposits makes them "caged tigers." The only way to tie this tiger down is to have high interest rates.

Securities, though, cannot become escaped tigers. If you buy state treasury bonds, government bonds, or enterprise bonds, you cannot get your principal back or obtain any interest until the bonds have matured. In this manner, your surplus purchasing power is tied down, and the tiger cannot escape from its cage. Of course, you could sell your bonds before they mature in exchange for someone else's cash, but in so doing you reduce that person's purchasing power. From an overall standpoint, the exchange of bonds cannot add to total purchasing power. If you buy stocks, the surplus purchasing power is permanently taken out of the realm of consumption because, in general, the principal which goes into a share of stock is never returned, nor are the shares returned to the company which sold them. When you need money,

you can sell your stock to a third party, but that, too, will reduce the purchasing power of the third party.

When one understands this important difference between securities and savings, one will understand what kind of priorities our policy should be adopted. It is apparent that our policy should encourage the conversion of savings into securities, e.g.—our policy should reduce bank savings and expand securities issues. From a purely economic point of view (setting aside ideology), there is a particular need to increase stock issues. We have exercised rigorous control of securities issues for quite a long time because issuing securities reduces bank savings. This understanding of the issue is not comprehensive enough. Issuing more securities facilitates macroeconomic control. We can also exercise planned regulation and control of the securities industry, and we can regulate and control it more easily than bank savings, because the government can approve of certain securities issues and deny others. The government can also levy different tax rates on profits from different securities in order to regulate securities issues and achieve the government's priorities. In short, the conversion of savings into securities is correct, and the entire world is now developing in this direction.

**III. The Securities industry has opened up a direct fundraising path for enterprises, facilitated the formation of a system based on self-responsibility (taking responsibility for one's own profits and losses), reduced the reliance of enterprises on the "communal rice bowl" of state-run banks, and helped the development of the most efficient enterprises.**

There are four primary sources of funds for China's enterprises (including state-run, collective, and privately run enterprises as well as individual entrepreneurs): One is fiscal appropriations. This was once a primary channel for funds, but it is now secondary. A second source is the funds of enterprises themselves, including several items outside the budget such as retained profits and depreciation expenses. A third source is loans from state-run banks, credit cooperatives, and trust and investment companies. This and the second source are now the primary fundraising channels for enterprises. The fourth source entails enterprises issuing stocks and bonds directly, or raising funds directly from employees and sectors of society outside the enterprise itself. This fourth channel only accounts for a very small proportion of funds raised presently, but this method has a promising future.

Let us examine the third and fourth channels. They are closely linked to the banking industry. The third channel, by which enterprises take loans directly from banking institutions (primarily state-run banks), could be called "indirect fundraising." The fourth channel, by which enterprises raise funds by direct issues of stocks and bonds or by signing investment contracts could be called "direct fundraising." The securities industry could be called the direct fundraising industry. As long as the investment contracts for joint enterprises can be exchanged, they should be considered securities



according to international precedent.<sup>3</sup> What is the difference between indirect and direct fundraising? The main difference lies in the fact that different parties assume the debt. If enterprises take out loans from banks, and banks raise their money from countless depositors, then enterprises do not owe any money directly to the depositors. Because banks cannot distinguish which depositor's money has been loaned to which enterprise, banks must be responsible to depositors while enterprises must be responsible to the banks. In other words, enterprises are responsible to depositors via the banks (the fundraising intermediary). This is why we use the term "indirect." The main shortcoming of indirect fundraising is that enterprises do not feel any pressure from the investors and can easily become dependent on the banks. This shortcoming is demonstrated especially clearly in China. Enterprises depend on state-run banks to supply funds, and the loans frequently are repaid late or defaulted on. Some money-losing enterprises even rely upon bank loans to pay wages, resulting in a situation in which countless enterprises eat from the "communal rice bowl" provided by the state-run banks. Because enterprises eat from this "communal rice bowl," structural inflation has arisen. This is the fundamental cause of inflation in China. Its existence means that no matter what we do to reduce the money supply, it will be impossible to reduce the inflation rate to zero.

Direct fundraising, on the other hand, does not share this shortcoming of indirect fundraising. Although there are also intermediaries involved in direct fundraising—securities dealers or brokers—they mainly help the enterprise to market its securities to individuals or to other enterprises. They do not take in funds and reloan them to enterprises, as banks do. Therefore, enterprises have direct responsibility for a debt to the buyers of its securities. In this situation, and especially when there are great numbers of people who have bought a particular security, the enterprise will feel the pressure of its responsibility, and it will not dare ignore its debts.

Therefore, vigorous development of direct fundraising is a good way to break the "communal rice bowl" and promote increased enterprise efficiency. It is apparent that our policy should be to vigorously develop the securities industry, and make enterprise fundraising more direct.

In summary, we could say that it is very significant for China to vigorously develop its securities industry. We should vigorously promote the conversion of savings deposits into securities and work hard to make enterprise fundraising more direct. This would not only alleviate inflation, but it would also spur enterprises to raise efficiency.

1. "Money, Banking, and the Economy," by Thomas Mayer p 6.

2. As for why the money supply includes savings deposits but not securities, one must explain this matter from the

standpoint of theory and historical experience. Due to space restrictions, this essay shall not expound further on this point.

3. For example, see the definition of securities in such U.S. statutes as the Securities Act and the Securities Exchange Act.

### **New Types of Savings To Guide Consumption Suggested**

90CE0314A Beijing JINRONG SHIBAO in Chinese  
20 Jun 90 p 2

[Special commentary by He Jianqiang (6320 1696 1730):  
"Convert Savings Types in a Suitable Manner To Guide Consumption"]

[Text] The relationship between consumption and savings is very complex and also very subtle. If the market slumps then savings rise; if there is panic buying on the market, then there is a big slide in savings. There are very many causes affecting the relationship between the two. Of course, there are also many ways of restricting this relationship. For a long time Chinese banks' work in the savings area has lacked the necessary research on consumers' needs and their purchasing motivation. The types of savings deposits are not only dull, but also when banks select and set up types of savings deposits, they do not fully consider how to rationally and appropriately guide consumption. To a certain degree this has weakened the function of savings in guiding consumption.

Can the selection and change of the savings type guide consumption? According to the Marxist analysis of needs, people's needs are divided into three main levels: need to subsist, need to enjoy, and need to develop. To satisfy his need a consumer will appropriately produce a purchasing motive, which will lead to an actual purchase. Afterward, a new stimulus will produce a new need, and there will again be an actual purchase. We can see that a consumer purchase of a commodity is not an isolated act, but is a successive act which has been influenced by a series of intermediate factors, basically: stimulus—need—purchasing motive—act of purchasing—new stimulus ... a cycle which is carried out repeatedly.

Although the needs produced by the stimuli are varied, they occur at various levels. Of course, the corresponding purchasing motives which emerge are also at various levels, and they can be classified. That is to say, consumption has a general nature, and its laws can be explored and mastered. Banks could provide fairly good guidance for consumption if they could study, master, and utilize the special characteristics, general nature, and laws of consumption, proceed from the special laws which restrain and guide it, and classify and set up savings types in a planned manner. Before satisfying his need by finally purchasing something, there is a period in which the consumer is waiting for an opportunity to make a purchase. This is also the "standstill period" for arranging the money to purchase commodities. The length of the "standstill period" is constrained by the

consumer's need and his purchasing motive. The length of the "standstill period" for arranging money varies according to different consumption needs and purchasing motives. If banks establish and change savings types based on the level or category of the consumer's need or his purchasing motive, then the time limit for savings deposits will basically be suited to the "standstill period" for the consumption money. Establishing and changing savings types will more vigorously affect consumption, and money turnover will accelerate markedly. Therefore, I say that the scientific establishment of and changes in savings types can play the role of guiding consumption.

Then, how should the banks start selecting and changing savings types?

First, study consumers' "motives for living and purchasing," and establish more new savings types.

To maintain subsistence the consumer needs food to eat, clothes to ward off the cold, housing to stay in, medicines to cure illness, a family and children in order to perpetuate the race, and so on. The purchasing motives aroused by these needs are subsistence purchasing motives. Generally speaking, there is little elasticity in the supply and demand of commodities which satisfy subsistence needs, most of which are daily necessities. For this reason banks should initiate "subsistence" savings deposits. These types of savings would roughly be: Housing savings: housings savings would be a special form of savings set up for people to purchase housing. Because the amount of money needed for purchasing housing is fairly large and the savings period is fairly long, the time limit for this type of savings can be divided into three periods: five, 10, and 20 years. To encourage people to purchase housing, preferential treatment can be given to the interest rate on this type of savings. Marriage and family savings: Marriage and family savings are a special form of savings set up for young people to marry and start a family. The majority of young people marry and start a family in the three- to five-year period after they begin working. Therefore, the time limits for this type of savings should be set at three years and five years. To encourage young people to support themselves and to be hard working and thrifty, suitable preferential treatment should be given to interest rates on this type of savings. Seasonal savings: Seasonal savings are a special form of savings set up for people's purchases in different seasons. The natural environment greatly influences people's subsistence and living habits. The necessary changes in food, clothing, housing, and movement are directly related to the seasonal changes of spring, summer, autumn, and winter. At the changing of the season, people make frequent and concentrated subsistence purchases. Therefore, it is highly necessary to set up seasonal savings. Three forms can be adopted for seasonal savings: 1) the fixed form with a time limit of three months; 2) the zero deposit, total withdrawal form with time limits of three months and six months; and 3) the total deposit, zero deposit and withdrawal form with a time limit of one year, and within this time limit there can be

four withdrawals according to season. Housewife savings: Housewife savings are a special form of savings set up for the convenience of the housewife's purchase of daily necessities. The housewife makes the pursuit of value in the most urgently needed commodities her main objective. It is difficult to fix the times and time limits for her purchases, for her purchases are of a strong, voluntary nature. Therefore, the current form is most appropriate for this type of savings. However, banks should pay attention to making deposits and withdrawals convenient, so it is best to set up a special window for this purpose. Otherwise, people would fear the trouble involved and would keep money at home rather than in the bank.

Second, study the consumer's "motives for purchasing things for enjoyment" and add new types of savings.

Under the circumstances in which subsistence is guaranteed, following the development of production, people will develop a need for material and spiritual enjoyment. Therefore, the stimulated purchasing motive is part of the enjoyment purchasing motive. In general, the purchasing act driven by this motive demands that commodities be new, beautiful, and fashionable. For this kind of commodity there is a fairly large elasticity in supply and demand. "Enjoyment-type" savings include:

Tourism savings: for people with low incomes, the form of zero deposit, total withdrawal should be adopted; for people with high incomes, the forms of total deposit, total withdrawal or total deposit, zero withdrawal can be adopted. The time limits can be divided into six levels: six months or one, two, three, five, or 10 years. A person taking part in "tourism savings" could, based on his savings book, get his bank's help in purchasing train and airplane tickets and in solving his accommodation problem. Color television sets, refrigerators, and other large durable consumer goods savings: the time limits for this type of savings can be one, two, three, or five years; the form of zero deposit, total withdrawal is fairly appropriate for it.

Third, study the consumer's "development purchasing motive" and add new types of savings.

The purchasing motives stimulated by people's need to develop their cultural knowledge, raise their scientific and technological level, develop their ability to understand and other aspects of the intellect, and improve their physical health and constitution are part of the development purchasing motive. Generally speaking, purchasing motives driven by development motives are not very frequent, and many lead to one-time purchases. Development-type savings should be: savings for an only son or daughter as he/she matures. Following the launching of planned parenthood, most people only have one child, and parents have the common hope that their child will be successful. Parents' intellectual investment in their child cannot be ignored out of hand. Because the investments are not the same, the form of zero deposit, total withdrawal is fairly appropriate for this type of

savings. College savings: college savings is a special form of savings set up for a student in preparation for his going to college. The time limits for this type of savings can be divided into three levels: three, six, or 12 years. The form of the savings should be zero deposit, total withdrawal.

### State Councilor Calls for Prompt Debt Settlement

90CE0388A Beijing JINRONG SHIBAO in Chinese  
14 Jul 90 p 1

[Report by reporter Zhang Jidong (1728 4949 2639): "Consider the Overall Situation, Don't Be Dependent, and Fight a Good Assault Battle for Debt Settlement"]

[Text] The nationwide work of settling "triangular debts" has entered the "assault" stage. The State Council has decided that, beginning on 1 August, all areas and all departments will be organized to launch the nationwide work of settling "triangular debts." It also decided to put in some funds for key-point settlement of cases of owing and delaying payment for a long time in capital construction. The People's Bank of China will arrange the work for certain credit standards and funds support.

Zou Jiahua [6760 1369 5478], head of the State Council's Leading Group for Settlement of "Triangular Debts" and councilor of the State Council concurrently chairman of the State Planning Commission, today at the State Council's work conference on settling "triangular debts," which ended here, said that, in accordance with the State Council plans, in the previous period in organizing the settlement of debts within the provinces, autonomous regions, and municipalities, and the settlement of debts crossing over provinces, autonomous regions, and municipalities, by the end of June, China as a whole had settled 78.4 billion yuan in "triangular debts." He said that the banking system, to settle debts nationwide, has put in a considerable amount of manpower and funds; and governments at all levels and relevant departments have done a lot of work, with marked successes, and have played a very good role in promoting the pickup of the economy. Therefore, we cannot underestimate the success of the work in settling "triangular debts" in the previous stage. On behalf of the State Council he expressed thanks to the comrades throughout China who had actively taken part in debt settlement.

When analyzing the reasons for the appearance of "triangular debts" over a large area throughout China, Zou Jiahua said that the formation of "triangular debts" is extremely complex and requires a comprehensive analysis. Except for some reasons that everyone knows, after the money market became tight, the production rate fell, affecting funds circulation and producing defaults. Zou Jiahua in particular pointed out that the legal and credit concepts of certain enterprises are dim. They do not do things according to economic contracts, do not abide by account settlement discipline, default at will on other people's loans, and also intensify the stretching out of "triangular debts." The ideas of selfish departmentalism

in the basic-level units of some banks is serious, which helps enterprises that open accounts to unjustifiedly refuse to pay other parties. Now there has even appeared jumbled formulations, like "mutual defaults cannot be designated as such," "outstanding accounts are reasonable, outstanding accounts are advantageous," and so on. Although the production of "triangular debts" are many-sided, the creditor's rights of socialist enterprises should be protected. This principle must be upheld, and we cannot let the phenomenon of not considering the overall situation to develop.

Zou Jiahua said that to promote a pickup in the national economy we need to take comprehensive measures, including settling "triangular debts." We must fully understand that settling "triangular debts" is closely connected to promoting a further turn for the better in the national economy. This also further creates favorable conditions for reform and opening up to the outside world. He said that at present we must fully estimate the difficulties, but we must also have the spirit of meeting the difficulties head-on. We must, through gradually settling "triangular debts," gradually establish or restore the normal economic order and the settling of accounts and establishing of credit in economic activities.

Zou Jiahua said that, to settle "triangular debts," we must base ourselves on tapping the latent capacity within the enterprises and on raising funds to settle debts from many quarters, and must integrate them with the invigoration of the enterprises' production levers and sales. He said that the starting point of this nationwide settling of debts should be, by taking stock of funds, stimulating circulation, and accelerating funds turnover, support the state's key backbone enterprises and increase the production of products suited for sale to satisfy needs, and in the end achieve the objectives of starting up production, starting up markets, and increasing the state's financial revenues. When organizing the settlement of "triangular debts," all places must support in a focused way the settling of debts by large- and medium-sized key enterprises and enterprises that sell products to satisfy needs, particularly "dual protected" enterprises, so that they are the first to become beneficiaries of the nationwide work of debt settlement. The relevant departments of the State Council must conscientiously make arrangements, enhance supervision and inspection, and take the initiative to cooperate well with local governments and specialized banks.

Zou Jiahua said that we must get a tight and good grip on the settlement of defaults in capital construction, and that the settlement of debts in the capital construction realm is an important component part of the entire work of debt settlement. The State Council has already made the decision that this work must be done. Relevant departments are requested to get a tight grip on finding out the situation and on making good preparations. In settling debts in capital construction, we must grasp the key points, giving priority to settling the debts of key



state projects, rational time-limit projects, and this year's projects that have been given priority for completion.

Zou Jiahua pointed out that the banks, while enhancing their supervisory function, must provide for the enterprises' vigorous, dependable credit and advisory services. With regard to situations in which the paying units refuse to make payments at will, the banks must handle the situation in an impartial manner and make strict checks. Enterprises cannot be permitted to refuse to make payments on grounds of "waiting to settle triangular debts." Everybody must vigorously support the reform of the banks' account-settlement system, vigorously promote the issuance of vouchers for commercial credit, and gradually put enterprise credit on the track of bank credit. We must restore the past effective supervisory function in account settlement, so that the banks will better carry out the task of being the state's account-settlement centers.

In conclusion Zou Jiahua stressed that debt-settlement leading groups in all areas and all departments must strengthen leadership and must strengthen coordination and supervision. All places must, placing emphasis on the overall situation, concentrating energy on settling well debts nationwide.

Ye Qing [0673 7230], chairman of the State Council's production commission, presided over this conference. At the beginning of the conference, Li Guixian [2621 6311 7639], councilor of the State Council concurrently president of the People's Bank of China, made an important speech. At the conference, Zhou Zhengqing [6650 2973 1987], vice president of the People's Bank of China, on behalf of the Leading Group for the Settlement of "Triangular Debts" of the State Council, made a specific plan for the nationwide work of settling debts.

Liu Tinghuan [0491 1694 3562], vice president of the Industrial and Commercial Bank of China; Lei Zuhua [7191 4371 5478], vice president of the Bank of China; Zhou Hanrong [0719 3352 2837], vice president of the People's Construction Bank of China; and representatives of more than 40 ministries and commissions of the State Council attended the conference. The meeting discussed and passed the "Plan for Nationwide Settlement of Enterprise Defaults on Payments," and passed it on to the State Council for approval and implementation.

### Shanghai Exchange Adopts Fluctuating Rates

OW0708115390 Beijing XINHUA in English  
1438 GMT 6 Aug 90

[Text] Shanghai, August 6 (XINHUA)—The Shanghai Foreign Exchange Center, the biggest of its kind in China, became today the country's first foreign exchange center to adopt the system of freely fluctuating exchange rates.

The closing price for one U.S. dollar was 5.6200 Chinese RMB [renminbi] yuan which was only 0.003 yuan higher than the opening price of 5.6170 yuan.

The total traded volume at the center today reached 7.76 million U.S. dollars.

At 09:30 A.M., the electronic display board showed an opening price of 5.6170 yuan.

The center was crowded early this morning with almost all the major U.S. dollar sellers and buyers in this, the country's biggest industrial and financial city. The sellers included the Brokers of the 15 biggest financial institutions, the Shanghai branches of foreign banks, and over 20 import and export (houses). The buyers included businessmen from nearly 30 major companies. Experts predicted that the presence of all [words indistinct], Shanghai-Hong Kong Joint Venture which needs foreign currencies to import parts and components, offered to buy 200,000 U.S. dollars at the opening price. But nobody responded.

Later, the Shanghai Volkswagen Co. Ltd, a Shanghai-Federal German joint venture offered to buy 1.2 million U.S. dollars at the price of 5.6180 yuan for one U.S. dollar. Very soon after, the Shanghai Textile Raw Material Company offered to buy 3.4 million U.S. dollars at the same price.

The broker of the Shanghai branch of the Hong Kong and Shanghai Banking Corporation offered 600,000 U.S. dollars to sell at the price of 5.6200 yuan for one U.S. dollar. A businessman from the Shanghai Municipal Corporation of Arts and Crafts offered to sell one million U.S. dollars at the price of 5.6190 yuan for one U.S. dollar.

The red digital signal on the electronic display board showed that 15 seconds had ticked away the two deals were clinched. [Words indistinct] for the price of 5.6200 yuan for one U.S. dollar.

During the one hour of business at the Foreign Exchange Center today a total of 35 transactions were concluded.

A broker of the Shanghai branch of the Standard Chartered Bank commented that adoption of the international trading system by the Shanghai Foreign Exchange Center shows that the center is gradually being internationalized.

## INDUSTRY

### Steel Production Regains Strength, Exceeds Plan 90P30067A

[Editorial Report] The 4 July edition of Beijing JINGJI CANKAO, an authoritative Chinese-language economic newspaper under the auspices of XINHUA News Agency, carried as its lead story on page one a report entitled "First Half Iron, Steel, and Rolled Steel Production Increases." The report highlighted a bulletin issued

by the Ministry of Metallurgical Industry announcing China's "outstanding improvement" in steel output in the first half of this year. In a straightforward account of the output data, which were also reported by XINHUA (3 July, published in the 5 July China DAILY REPORT) and CHINA DAILY (4 July and 4 August), the item mentioned that, according to the bulletin, overall steel production had already fulfilled 52.66 percent of China's annual plan. In addition, pig iron and rolled steel production had fulfilled 50.7 percent and 52.13 percent, respectively, of the annual plan.

The JINGJI CANKAO account also reported that rolled steel imports fell by 65.5 percent in the first five months compared with the same period last year and that steps will be taken to further increase domestic supply. Furthermore, the bulletin announced that the volume of iron and steel exports increased 57 percent in the first half of 1990.

## SMALL-SCALE ENTERPRISES

### Town, Township Enterprises Contribute to Economy

HK2570511 Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 5, 20 May 90 pp 39-46

[Article by Huang Shouhong (7806 1343 1347), Research Office of the State Council; edited by Dai Ling (2071 0407); contributors were Yu Guoyao, Chen Jiyuan, Li Bingkun, Yu Dechang, Li Yandong, and Guo Qing: "Town and Township Enterprises as a Motive Force in the Development of the National Economy"]

[Text] Of the world-renowned accomplishments in the 10 years' reform and development of the rural areas, and taking the lead in the reform of China's economy, one that possesses the highest historical significance is the vigorous emergence of town and township enterprises.

The development of these enterprises in the past 10 years has not only supported the prosperity of the rural economy, pushed the changes and reform in the rural economic structure, and carved out a new pattern for the growth of the national economy, but also, in a prolonged historical period and on an even larger scale, has pushed the development, change, and reform of the national economy, and has influenced the future of China's economy. This research report will attempt to analyze the contributions of town and township enterprises to the development of the national economy from the standpoint of the whole situation, the angle of gross volume growth, and changes and reform in the structure, using the method of citing concrete instances.

### Pushing the Growth of the National Economy and Changes in Structure

A. On the side of the growth in the economy, town and township enterprises have made prominent contributions, manifested in the following:

1. From 1980 to 1988, the increase in the gross output value of town and township enterprises made up 31.3 percent of the growth volume of the whole country's social gross output value; the ratio of the output value of the enterprises in the social gross output value increased from 7.7 percent in 1980, to 26.0 percent in 1988. During the same period, the industrial output value of town and township enterprises made up 35.9 percent of the growth volume of the country's industrial output value, while the ratio occupied by town and township industries likewise grew from 9.76 percent to 27.6 percent of the output value of the whole country's industries.

2. In the 10 years from 1978 to 1988, the taxes paid by town and township enterprises to the state increased by 1,320 percent, averaging an annual increase of 31.4 percent and far surpassing the growth rate of 8.3 percent in the state's financial revenues during the same period. The ratio of taxes paid by the town and township enterprises in national financial revenues rose from 2.01 percent to 12.8 percent, an increase of 10.8 percent. Of the increased volume of national financial revenues from 1978 to 1988, the portion contributed by town and township enterprises in the form of taxes was 21.63 percent, that is, over one-fifth, of which the portion contributed by enterprises from 1985 to 1988 was 50.87 percent, or over half. It should also be pointed out that the contributions by the enterprises to the increase in national financial revenue were "net" contributions. This was because, in the development of the enterprises, national finance basically had no input and only shared the fruits of their development, whereas the case of state-run enterprises was entirely different, as, along with taking part in the distribution of their results, state finance had to pay out a large amount in investment. At the same time, national finance was also required to spend large amounts to subsidize those enterprises that had incurred losses. In addition, each year the state had to spend a large amount on subsidizing the living and welfare of the workers and their family members of enterprises owned by the whole people, not to mention price subsidies, and so forth. Thus, the "net" contributions made by state-run enterprises to national finance were far smaller than their normal contributions, whereas in the case of town and township enterprises, their "net" contributions were far larger.

If town and township enterprises had not depended on the strength of the peasants, rural societies, and districts to develop, but rather, on investment from national finance, they could not have attained their current scale of development. From 1978 to 1986, the state's capital construction investment in industries owned by the whole people amounted to 288.523 billion yuan, the increased volume in industrial output value was 319.29 billion yuan, and the coefficient of investment benefit was 0.9035. In 1988, in the whole country, town and township industrial output value amounted to 452.938 billion yuan; if industry under the system of ownership by the whole people were to effect an increase of this size,

the state would have to increase industrial capital construction investment by at least 409.2 billion yuan, 35.1 percent of the state's financial revenue (not including receipts from loans). This would be 400 percent of the increase in financial revenues for the period. Obviously, state finance would be unable to pay out such a large amount in funds for investment in industry again. Hence, the participation of the peasants and rural areas in the process of industrialization reduced the pressure exerted by economic development on finance. Similarly, we should not overlook another of the contributions of town and township enterprises to finance: To a certain extent, town and township enterprises have taken over certain items of expenditure which should have belonged to national finance, such as investments in agriculture, expenses involved in finding employment for the rural labor force, expenditures incurred on the side of rural welfare services, and so forth.

3. In recent years, there has been a rapid increase in foreign exchange earnings from exports of town and township enterprises products. The increase in 1988 over 1986 was 170 percent, far higher than the increase of 63.3 percent in exports by the whole country. Of the gross volume of export increases in the whole country from 1986 to 1988, contributions by town and township enterprises were 24.7 percent, that is, about one-fourth.

4. Development of town and township enterprises also made contributions to both market supply and market expansion. The most obvious contribution to the market is the increase in the volume of effective supply. From 1980 to 1988, the market supply capacity of light industrial products of the whole country increased by 470.55 billion yuan, of which the portion contributed by town and township industries was 32.0 percent; but if the increase in supply capacity by industries run by localities below the village level is included, then the contribution by town and village industries was 45-50 percent. From 1978 to 1988, in the whole country, the net increase in raw coal was 329 million tons, of which town and township enterprises occupied 67 percent; the net increase in cement was 138.13 million tons, of which town and township enterprises accounted for 38.7 percent; the net increase in machine-made paper and paper plate was 6.64 million tons, of which the town and township enterprise share was 58.7 percent. Of the large quantities of energy and raw materials supplied by town and township enterprises, aside from the self-consumed portion, a large portion was supplied to big industries and other economic construction projects. For example, production of raw coal by town and township enterprises in 1988 was 322.86 million tons, of which only 151.44 million tons, or less than 50 percent, was self-consumed.<sup>1</sup>

If it is said that their contribution to increasing the market's effective supply is more easily appreciated by the people in the form of goods in kind, then their contribution to the market's expansion is not so directly

or immediately apparent. However their role in economic development and in increasing the market's effective supply is equally important. Under the traditional strategy in economic development, markets in our country are divided into two, the urban and rural markets; and the basic characteristic is that market scale is relatively small and the urban and rural markets are extremely unbalanced. As for consumer goods, the peasants are more than 60 percent self-sufficient. The scale of the rural markets is basically a function of the size of the population. The expansion rate of rural markets is lower than that of cities and towns. In 1978, the country's population was 963 million; the population in cities and towns was 17.86 percent of the total; the retail sales volume of social commodities was 48 percent, with a per capita average of 435 yuan. However, in the rural areas where the population was 72.14 of the country's whole, the retail sales volume of commodities was only 52 percent, averaging only 102.5 yuan per capita, or less than one-fourth that of urban residents. In 1978 the scale of urban savings was 15.49 billion yuan, averaging 91.1 yuan per person; the scale of rural savings was 5.5 billion yuan, or one-third that of urban savings. In this economically backward, large country of ours in which over 80 percent of the population live in rural areas, if we deviate from the increase in the income, consumption, and savings of the peasants, and from the development and expansion of the rural markets, and allow to continue the imbalance in the urban and rural markets, economic development would be nearly impossible.

Since 1978, the peasants' income has increased rather rapidly. From 1978 to 1988 the average annual increase in per capita net income was 11.8 percent, which was higher than the average growth rate from 1952 to 1987. The peasants' income derived from the development of town and township enterprises is a fast variable in the function of the peasants' income. In 1978, the income from nonagricultural production was 7 percent of the peasants' per capita income; in 1988 it was 27.3 percent of the peasants' per capita net income. From 1978 to 1988 of the increase in the peasants' per capita net income the amount contributed by nonagricultural production was 33.7 percent, that is, over one-third. Following the drastic expansion in the peasants' purchasing power of commodities, the scale of rural markets was also drastically expanded. In 1988, the retail sales volume of social commodities in the rural areas was 520 percent over that of 1978, or 56.75 percent of the gross volume of retail sales of commodities of society; and from 1978 to 1988, market scale in the country increased by 380 percent, of which the portion contributed by the expanded scale of rural markets was 58 percent. Concurrently, the scale of peasants' savings increased rapidly. In 1988 the balance of peasant households' savings accounts was 2,050 percent more than in 1978. Town and township enterprises expanded the scale of rural markets by means of the above-mentioned indirect form, and also participated directly in their expansion and expanded their volume capacity. In 1987, the net increase in the original value of fixed assets of the two

levels of enterprises in the rural areas amounted to 28 billion yuan, an increase of 29 percent over the preceding year, or 380 percent over 1980. Moreover, 70 percent of the enterprises' consumed products came from state-run industries, and, if we also take into account jointly operated and individually operated enterprises, each year town and township enterprises provided state-run enterprises with a market worth about 30 billion yuan. In the current period of changes in the economic structure, the rise of rural markets carries an especially important significance. In recent years, following rapid development of the economy, rather rapid increase in per capita national income, and the influential example of consumption in developed countries, the demand structure of the consumption market in our country is undergoing periodical changes at an unprecedentedly high speed; however, due to the customary role of the old structure, the insensitivity of the economic system toward the changes in demand, and the fact that structural readjustment takes time, changes in supply lagged behind; and with the sharp structural contradiction between supply and demand, quite possibly confusion and disturbances could be caused in the market if all was not handled well. But the expansion in the scale of the rural market has eased this kind of contradiction to a certain extent. Because the consumption starting point of rural residents is relatively low, the grades of the commodities they purchase are not high, and are of lower grades compared with the commodities consumed by the urban residents, this provided the original industrial structure with a respite and avoided the consequences of causing a broken layer, from the changes in demand being too large and too sudden, thus dealing a heavy blow to economic development.

B. Development of town and township enterprises has not only effectively pushed the growth of the rural and national economy, but has also promoted changes in the economic structure at a comparatively fast rate.

For a prolonged period, the rural economic structure of our country maintained the traditional pattern of taking agriculture as the leading factor. In 1978, in the rural social gross output value, the relative weight of agricultural output value was as high as 70 percent, while inside agriculture the slant was toward planting crops, the ratio of which was 76.7 percent. The most vital weak points of this exceptionally unitary type of rural economic structure with traditional agriculture as the leading factor were the irrational character of the allocation of resources, with some essential elements remaining idle; insufficiency in the internally contained energy force and development motive power; and the general difficulty of becoming a powerful, supporting structure for economic development. Development of town and township enterprises, by effecting the transfer on a relatively large scale of the rural labor force from agriculture to nonagriculture, has changed the organization form and utilization efficiency of rural resources, and has elevated the status of the rural economic structure; that is, progressing from an economic structure with a low efficiency rate, to an

economic structure with high benefits. Within a period of less than 10 years, the rate of change in the rural economic structure far exceeded that of the 30 years before the Third Plenary Session of the 11th CPC Central Committee.

The proportion of agricultural output value in rural social gross output value dropped from 69.5 percent in 1978 to 46.5 percent in 1988, a drop of 23 percent; the nonagricultural output value rose from 31.5 percent to 53.5 percent; the relative weight of nonagricultural employment in the rural area rose from 9.3 percent in 1978 to 25.3 percent in 1985, and it should be particularly pointed out that in 1987 nonagricultural output value for the first time surpassed that of agriculture. This indicated that a change in quality had developed in the rural economic structure, that the pattern of agriculture as the unitary leading factor had been broken, and that the rural economic structure was shifting toward having a compound nature.

The enormous change in the rural economic structure has pushed the growth of the rural economy. According to estimates, as a result of the change in the rural economic structure, the increase in the amount of wealth in the areas was 5.76 billion yuan in 1980, 84.76 billion yuan in 1985, 47.184 billion yuan in 1986, and 94.07 billion yuan in 1987. In 1987, the increase in the rural social gross output value due to the changes in the rural industrial structure was 70 to 80 percent of the increase in the rural social gross output value of that year. It may be said that the upgrading of the rural economic structure pushed by the development of town and township enterprises was the main motive force of the development of the rural economy in recent years.

Along with changing the rural economic structure, the development of town and township enterprises has changed the entire structure of the national economy, and the technological process of economic operations. After the establishment of New China, we adopted the strategy of the priority development of heavy industry. For the sake of maintaining and speeding up the development in the rural areas of a relatively high accumulation rate and resources-mobilization power, consistent with the stress on heavy industry, and ensuring that accumulations from the rural areas flowed in an unceasing stream into large industries in urban areas, a set of economic operational mechanisms was established. The special features were segregating the urban and rural areas, embodying the unified purchase and marketing system, the household registration system, and employment system. Setting up the urban and rural areas as separate ramparts blocked the road of transformation of a dual economy into a unitary one, likewise blocking the transfer of surplus labor power in the rural areas. This caused the trend to strengthen the duality of economic structure accompanying the increase in the degree of industrialization, and also aggravated the degree of change in quality of the economy. From 1952 to 1978, the relative weight of the gross value of industrial output in the gross value of output of industry and

agriculture increased by 32.1 percent; its relative weight in gross value of social output increased by 27.51 percent. The increase in the relative weight of the industrial labor force in the social labor force was only 6.5 percent. Compared with the proportion it occupied in the economy, industry's power to absorb labor and its growth rate were obviously too low. A large, continuously increasing labor force stayed behind in agriculture, which was growing increasingly smaller in proportion, while an increasing accumulation of labor force already exceeded the absorption capacity of land and capital under the traditional conditions of agriculture. Elevation of the agricultural labor productivity rate nearly came to a halt and a negative growth rate appeared. Under the stature of the continuous augmentation of the dual structure, industry continuously expanded; the result was the realization of a relatively high degree of industrialization on the foundation of an early, low level of per capita income and undeveloped agriculture.

The industrial portion of our country's economic structure has already reached or surpassed the level of the developed countries, but the dissimilation degree in the economic structure and national income level belong to the ranks of typically backward countries. Augmentation of the dual character in the structure greatly restricted the movements of essential economic elements and elevated the efficiency rate of the combination of these elements in the course of their movements. The extremely irrational allocation of resources has been difficult to readjust. Moreover, the drop in labor productivity rate of agriculture has rendered the products and economic surplus provided by agriculture insufficient to meet the demands of the daily expanding industry, thus causing uncoordinated industry and agriculture, and the frequent readjustment of the national economy.

To a definite degree, the rise of town and township enterprises has changed the traditional strategy of economic development and the process of economic operations. The rapid transfer of rural labor force to nonagricultural pursuits has opened up the road for the transformation of the economy from having a dual nature to having a unitary one. The relative weight of the agricultural labor force (agricultural, forestry, animal husbandry, sideline farming, and fishery labor force) in the whole country's social labor force dropped from 71.4 percent in 1978 to 57.9 percent in 1988. At the same time, nonagricultural pursuits in the rural areas absorbed some 70.7733 million people from the surplus agricultural labor force, and the relative weight of staff members and workers of town and township enterprises in the labor force of the rural areas rose from 9.5 percent to 23.82 percent. The general laws of economic development indicate that reduction in the proportion of the agricultural labor force is the most significant variable in the process of the change and upgrading of the economic and the industrial structure. Even with the marginal productive force of labor in agriculture surpassing zero degrees in value, as an estate department of relatively low comparative interests, reduction in the proportion of

the agricultural labor force indicates that the nonagricultural departments of relatively higher economic effects have begun to possess the ability to absorb labor, thereby, pushing the transformation of the whole economy from a structure with low effects to one of high effects, and pushing the growth of the economy. It is worthy of note that the transformation of China's economic structure from a dual to a unitary character was not the result of urban industries opening up the doors to absorb agriculture's surplus labor, but was started and developed internally in the rural areas. In this transformation process, the rural areas were not, as in the transformation of the dual economy in the "Louis pattern," the passive party that simply exported surplus labor, but have changed into being the active party. In the process of the transformation of the dual economy, this change in the role of the rural areas has enabled the growth of the rural economy; and in the upgrading of the industrial structure, they have become the active forces in pushing in recent years, the transformation of the dual economy, growth of the national economy, and upgrading of the economic structure. From 1978 to 1988, the social gross output value in the rural areas increased from 216.129 billion yuan to 1,207.827 billion yuan, far surpassing the growth rate of the country's social gross output value during the same period. The proportion of rural social gross output value in the whole social gross output value also rose from 31.6 percent to 41.3 percent. The rapid development of the rural economy, particularly of nonagricultural pursuits, has made it possible for the dissimilar economic structures of the urban and rural areas to become gradually connected in the course of growth, has shortened the time period for the transformation of the dual economy, and has created a wholly new transformation pattern of the dual economy with Chinese characteristics.

#### **Elevating the General Efficiency of the National Economy**

Many people are of the opinion that in the town and township enterprises the material equipment is poor, the technological level is low, energy resources and raw materials are wasted, and that their participation has lowered the general efficiency of the national economy. To make a correct assessment of the effects of the participation of the town and township enterprises on the national economy we must put aside all biased views, remove certain disturbing and noncomparable elements, choose a new angle of approach, employ development viewpoints, and carry out analysis from many sides and at different levels, otherwise, we too may become biased in our views.

The standard for measuring the high or low general efficiency of the national economy is first the degree of utilization and efficiency of resources. As mentioned in the foregoing, because of the errors in the traditional strategy for economic development and in the population policy, in the rural economic system, a large surplus labor force existed whose marginal labor productivity rate was equal to zero, and whose production efficiency



rate was extremely low. Under such circumstances, despite the high efficiency rate of certain industrial departments, the general efficiency rate of the national economy was obviously restricted by the too-low rural economic rate, remained at a relatively low level, and was difficult to improve. Hence, the transfer of the surplus rural labor force become the only road to raising the rural economic efficiency rate and to further improving the general efficiency rate of the national economy. From 1978 to 1988, town and township enterprises absorbed surplus rural labor at an average yearly rate of 6.72 million people. This raised the production efficiency rate and economic efficiency rate in the rural areas and greatly reduced the discrepancy between the rural labor productivity rate and state-run industrial labor productivity rate. In 1980, the social gross output value created by each rural labor unit was 869.6 yuan, only 7.2 percent of the output value created by labor in industrial enterprises doing independent accounting and under the system of ownership by the whole people. In 1987, the output value created by each rural labor unit increased to 2,400.4 yuan, equivalent to 12.3 percent of the output value created by labor in industrial enterprises doing independent accounting and owned by the whole people. Compared with 1980, this was an improvement of 5.1 percent. Hence, development of town and township enterprises and reduction in rural surplus labor force, while concurrently raising the utilization rate of essential elements and the economic efficiency rate in the rural areas, also raised the general efficiency rate of the national economy.

In a large country with low earnings in the process of industrialization, the extreme scarcity and shortage of capital, and the plentiful labor force, are the two basic characteristics in economic development. Insufficiency in the effective supply of capital is the "bottleneck" restricting our country's economic growth. Hence, so far as our country is concerned, on the preconditions of endeavoring the utmost to increase domestic savings and introduction of foreign capital, the key determining economic growth is whether we can realize replacing the scarce and short essential elements of capital funds with the plentiful essential elements of the labor force, and to what extent such a replacement can take place. From 1980 to 1987, in the town and township industries, each increase of 1.22 jobs and 2,300 yuan of fixed assets could increase output value by 10,000 yuan, whereas during the same period in the state-run industrial enterprises a 10,000 yuan increase in output value required increases of 10,800 yuan in fixed assets and only 0.25 jobs. In other words, compared with state-run enterprises, town and township industries when creating each 10,000 yuan of output value would be equivalent to using 0.97 labor force unit to replace 8,500 yuan of fixed assets. Computed on this basis, from 1980 to 1988, town and township industries newly increased 401.997 billion yuan of output value which, compared with the state-run industrial enterprises, would be like providing 3,899 more jobs and replacing 341.7 billion yuan of fixed

assets, equivalent to the net value of the fixed assets of state-run industrial enterprises in 1985.

When measuring the efficiency rate of town and township enterprises, people frequently like to take as reference the experiences of state-run, large industries and from this they reached the conclusion of the low economic efficiency rate of town and township enterprises. This kind of comparison overlooked two basic prerequisites embodying noncomparable factors. First, state-run industries and town and township enterprises do not run along the same development road. The road taken by the state-run industries is the capital-intensive one, whereas that taken by our enterprises is one which is principally labor intensive. Thus, using the all-staff labor productivity rate of state-run enterprises of the capital-intensive type to measure and assess town and township enterprises of the labor-intensive type, is not reasonable. This sort of comparison cannot explain the actual problem. Second, the development stages of state-run enterprises and town and township enterprises were different. Under the vigorous support of the state, and after nearly 40 years of development, state-run enterprises have already entered the maturity stage, whereas town and township enterprises mostly began in 1978, and developed particularly after 1984. Quite obviously, the two are not comparable. If we delete the noncomparable factors and put state-run enterprises and town and township enterprises on equal conditions and carry out a comparison, then we may say that the economic efficiency rate of town and township enterprises is by no means lower than that of state-run enterprises, and may even be higher. Generally speaking, the all-staff labor productivity rate of enterprises is directly proportional to the degree and extent of the enterprises' material equipment. In 1987, in industrial enterprises owned by the whole people, the per capita original value of fixed assets was 18,800 yuan and was 500 percent of the per capita original value of fixed assets of rural enterprises; but in 1987 the all-staff labor productivity rate of industrial enterprises doing independent accounting and owned by the whole people was 16,671 yuan, being only 170 percent of the 9,803 yuan of that of rural industrial enterprises in 1988. Obviously, if under similar conditions the degree of the fixed assets equipment of rural industrial enterprises should reach the same level as that of industrial enterprises owned by the whole people, then their all-staff labor productivity rate would be 300 percent of that of the latter.

At any rate, at the moment it is a fact that the all-staff labor productivity rate of rural industry is labor than that of state-run industry, but if an analysis is made from the angle of development, it is possible that in the not too distant future, rural industries will approach and even catch up with state-run industrial enterprises. From 1981 to 1988, in the industrial enterprises doing independent accounting and owned by the whole people, the average annual growth rate of the all-staff labor productivity rate was 5.15 percent; during the same period in the rural enterprises the average annual growth rate of



the all-staff labor productivity rate was 17.92 percent, 348 percent of the growth rate of industrial enterprises doing independent accounting and owned by the whole people. Seen from the growth rate of all-staff labor productivity, the growth in industrial enterprises owned by the whole people was fairly even, while the growth in the rural industries was obviously at an accelerated rate: Thus, from 1981 to 1985 the average annual growth rate was 14.9 percent; from 1986 to 1987, it was 19.3 percent; and in 1988 it rose to 31.2 percent, 200 percent higher than from 1981 to 1987. The rapid growth in the productivity rate of rural industries greatly reduced the disparity between the industrial enterprises owned by the whole people and the rural industrial enterprises, with respect to the all-staff labor productivity rate. The ratio between the two dropped from 4.61:1 in 1980 to 1.84:1 in 1988. It should be pointed out that, from 1985 to 1987, in the industrial enterprises doing independent accounting and owned by the whole people, the increase in per capita original value of fixed assets was 20.5 percent, but the increase in the all-staff labor productivity rate was only 9.7 percent, lower than the growth rate in the per capita original value of fixed assets. On the other hand, in the rural industries in the same period the per capita original value of fixed assets increased by 42.2 percent and the all-staff labor productivity rate increased by 42.5 percent. The two basically progressed at the same pace. From this it can be seen that the utilization efficiency rate of newly increased fixed assets in industrial enterprises owned by the whole people was lower than that in the rural industrial enterprises. Hence, if the rural industrial enterprises can maintain a definite scale in fixed assets investments, then there is the possibility that in the not too distant future and the next few years their labor productivity rate will approach that of industrial enterprises doing independent accounting and owned by the whole people.

In measuring the economic efficiency rate between industrial enterprises owned by the whole people and town and township enterprises, aside from comparing their all-staff labor productivity rate, we can see through comparing the targets of economic benefits, that with reference to the three effect targets of fixed assets, rural industrial enterprises are superior to industrial enterprises owned by the whole people. The realized profit and tax target per each 100 yuan of output value is lower than in the enterprises owned by the whole people. This is because: 1) In rural industrial enterprises, the organic constituent of capital is low, labor consumption in the production process is high, and the production cost in terms of wages is relatively high. 2) In industrial enterprises owned by the whole people, energy and raw materials are supplied principally by the state at parity prices, whereas the town and township enterprises must procure their energy and raw materials principally from the market at negotiated prices. It is estimated that in Jiangsu Province, where town and township enterprises are most developed, in 1989 purely because of the rise in the prices of coal and electric power, the town and township enterprises increased their expenditure and

reduced their profits by 2.5 billion yuan which was equivalent to 80 percent of the realized profits in 1988 of the town and township enterprises in the whole province.<sup>2</sup>

The plentiful supply of energy and the efficiency rate in the utilization of energy are key in determining China's economic development. Many people are of the opinion that since town and township enterprises are high in energy consumption and low in efficiency, they are the archoffenders causing the stringency in energy supply. To find out if this is true or not, we have made an analysis, as an example of a rural industry consuming the highest proportion of energy among the town and township enterprises. Due to the economic development needs, despite the fact that in the rural industrial structure a considerably large proportion is bound to be industry of high energy consumption, because of the relatively large relative weight of industries of the labor-intensive type in the rural industries and the relatively small requirement for energy, the energy utilization benefits of the rural industries are not at all low. In 1987, the energy consumption for every 100 million yuan of industrial output value averaged 49,000 tons of standard coal for the whole country and 44,000 tons of standard coal for the rural industries. If we measure the energy utilization efficiency rate of rural enterprises from the relationship between the output value of rural enterprises and energy consumption, it can be seen that in 1988 the output value of rural enterprises was 436.3 billion yuan occupying a ratio of 16.1 percent of the gross output value of whole society; the energy consumption volume of rural enterprises was 147 million tons of standard coal, being 15.3 percent of the whole country. Thus, the output value ratio of rural enterprises was higher than the energy consumption ratio, that is, the energy utilization efficiency rate of rural enterprises was not low. Naturally, due to the differences in the industrial structure and in the degree and extent of material and technological equipment, certain incomparable factors do exist in the energy consumption targets between rural enterprises and state-run enterprises. Despite the fact that the conclusion to the effect that the energy consumption and efficiency rate of rural industries are higher than those of state-run industries is still subjected to further discussions, before we have on hand valid and strong testimonials, we cannot lightly make the conclusion that town and township enterprises waste energy.

Some people are of the opinion that, considering current stringency in energy supply and raw materials, the development and efficiency rate obtained by the town and township enterprises were the price paid for the relatively large losses in production suffered by the state-run enterprises. Some people have estimated that in the state-run industries in the whole country 40 percent of the industrial production capacity has been idled, and that each year some 400 billion yuan of output value and 50 billion yuan of profits and taxes were therefore lost. In reality, from an analysis of the industrial structure, the existence of competitive relations for energy and raw

materials with the large industries does not apply to the whole of the town and township enterprises. Probably fewer than 15 percent of these enterprises have been in active competition with the large industries in this respect, of which small cotton spinning plants are, relatively speaking, the more outstanding offenders. But the output value of the textile industry in the town and township enterprises was only seven percent of the gross output value, and the ratio was indeed not large. In the heavy industry of town and township enterprises, the large consumers of energy and raw materials are the raw materials industry and the machine-processing industry. They accounted for 21.8 percent of the gross output value of the town and township enterprises. The former itself produces raw materials, whereas the latter operates in coordination with the state-run large industries. Indeed, we cannot make the same kind of remarks concerning all the industries competing for energy and raw materials with the state-run industries. Though turning out the same kind of products the quality and effects of products from certain state-run enterprises are sometimes inferior to those of the town and township enterprises. Moreover, seen as a whole, in the relations between town and township enterprises and state-run enterprises there are both merits and demerits with the former often surpassing the latter. With the passing of time, an evaluation of this kind will gradually receive the consensus of an increasing number of people.

Viewed from a step back, at the present stage of China's development, even though the effects of town and township enterprises are low, they have their reason for existence and development. With the existence of a large volume of unemployed labor force in the rural areas, the important, and first criterion on the good or bad points of these enterprises is that of employment, and not one of the economic effects. Speaking from the side of the state, without violating laws and regulations, without damaging the ecological environment and natural resources, if only town and township enterprises can manage to survive in a severely competitive market, their right of existence should be duly respected, because their mere existence has already pushed the elevation of the country's economic efficiency. In judging and assessing the right or wrong, merit or demerit, of these enterprises, we must look squarely at the problems and difficulties which their development has brought; and we must also take note of the possible consequences and risks in losses in efficiency and ill effects on social stability, which the large accumulation of surplus labor force in the rural areas may bring through the nondevelopment of town and township enterprises, or their slow or delayed development.

#### **Speeding Up the Process of Agricultural Modernization and Urbanization of Rural Areas**

The most direct contribution of town and township enterprises to agriculture is the contribution of essential elements. In the 10 years from 1978 to 1988, the funds expended by town and township enterprises in industry subsidizing and building up agriculture amounted to

16.28 billion yuan. During the same period the amount of funds released by these enterprises in wage payments to employees and workers and profit dividends for the peasants' distribution and disposal amounted to 382.8 billion yuan, making up 25 percent of the net increased volume of the peasants' income during the period. Of the income received by the peasants from the enterprises, a portion was converted to input into agriculture through investment, while another portion was deposited in credit societies or agricultural banks, and likewise flowed into agriculture in the form of agricultural loans, thus increasing the supply of agricultural funds.

If it is said that the contributions of town and township enterprises to the growth in the essential elements of agriculture have been the important part in the support given to agriculture's development in recent years, then it may also be said that the enterprises' development in respect of the absorption of rural surplus labor force has laid the foundation for agriculture's long-term, stable development and the realization of modernization. In this large country of ours with a low income and a population of 1.1 billion, the two most potential and difficult problems met with in agricultural modernization are: Where does the money come from and where should the people go? The traditional strategy in economic development and the too-rapid increase in population have put double pressure on our country's agriculture and rural areas. On the one hand, through the form of the "scissors differential" between industrial and agricultural products a large part of the "economic surplus" has been drawn away from agriculture for the development of industry. It is estimated that, since the founding of the PRC, agriculture has provided industry with over 600 billion yuan of capital accumulation; on the other hand, a large amount of surplus labor congregated in the midst of agriculture and rendered the labor productivity rate stagnant and it even fell. Under this double pressure, agriculture has stayed for a long time in a traditional status, and found it difficult to pass through the gate to modernization. Development of town and township enterprises has changed this traditional economic operational procedure. With its relatively high flexibility in employment and contributions to the essential elements in agricultural growth, it has brought hope for the solution of these two difficult problems. In localities wherein town and township enterprises have developed with increasing speed, agriculture's modernization level has risen increasingly.

In recent years, facing this striking contrast between agriculture's stagnation and hesitancy in production, and the high-speed development of town and township enterprises, some people have blamed the latter as the cause of the former; believing that first, town and township enterprises have occupied the rural labor force and caused an insufficient supply in labor force to agriculture; and second, that the scale of credits and loans to town and township enterprises has been too large, thus edging out credits and loans to agriculture and causing insufficient input in agriculture. Perhaps we may make

an analysis if this was the real situation. Development of town and township enterprises has only reduced agriculture's surplus labor force and has not reduced the effective supply of labor force to agriculture. From 1978 to 1988, the net increase in labor force in the rural areas was 97.25 million people and during the same period the volume of labor force transferred out of the agricultural department was 67.18 million people, resulting in a net increase of 30.07 people in labor force to agriculture. Concurrently, the area of cultivated land in our country was gradually reduced each year, and from 1957 to 1988 the average yearly reduction was some 7.744 million mu. In the same period, the area of cultivated land handled by the labor force dropped from 8.7 mu to 3.6 mu. If we also take into consideration the fact that of the labor force transferred to the town and township enterprises quite a large volume still did part-time or concurrent work in agriculture, then the existing agricultural labor force actually has occupied much less of the resources for agriculture. Hence, development of town and township enterprises did not by any means reduce the effective supply volume of labor force to agriculture, and between town and township enterprises and agriculture, the phenomenon of competition for labor force did not exist. At present, it is true that there is a relative stringency in the supply of capital funds to agriculture. First of all, this is the result of the slanting to one side of the state's macroeconomic policy. First, state finance has reduced the volume of supply of funds to agriculture. In 1978, in national finance, the support-agriculture funds occupied a ratio of 6.9 percent of the national expenditures, but dropped to 5.8 percent in 1988. Second, the state's currency policy slanted toward the urban areas and there has been an outflow of funds from the rural areas. From 1979 to 1988, there was a credit balance in credits and loans for agriculture in the whole country and each year funds in the rural areas were drawn out in large amounts in the form of bank credits. Since 1984, there were rather large increases in the amount of loans made to town and township enterprises and in the proportion they occupied in the credits and loan funds. But seen from the order of timing, loans to these enterprises did not by any means display the phenomenon of having edged out agriculture. The large-scale increases in loans to town and township enterprises principally took place in 1986 and 1987, whereas the relatively large-scale reduction in the proportion of loans to agriculture occurred in 1984. Reduction in the proportion of loans to agriculture and the increase in the proportion of loans to town and township enterprises did not happen at the same time; hence it is difficult to say that reduction in loans to agriculture was caused entirely by the town and township enterprises.

Between the development of town and township enterprises and the growth of agriculture there are in existence relatively large related effects. Based on the per capita output value of town and township enterprises in the 1988 farming population, we may generally divide the country into three types: Area of developed town and

township enterprises, nondeveloped area, and intermediate-developed area. Area of developed town and township enterprises refers to that area in the farming population where the per capita output value of town and township enterprises is over 750 yuan; in the intermediate-developed areas the per capita output value of enterprises is between 400-750 yuan; while in the undeveloped areas, the per capita output is below 400 yuan. The analysis shows that areas with the more developed town and township enterprises have the higher level of agricultural modernization; and in all such aspects as the condition of agricultural mechanization, use of electric power in agriculture, application volume of chemical fertilizer and effective irrigation area of farmland, developed areas of town and township enterprises are higher than the intermediate and undeveloped areas. Take grain output for example, from 1978 to 1988 the increase in the gross output of grain in the whole country was 31.0 percent. The intermediate areas of town and township enterprises showed the most rapid increase in gross output, the scale of increase being 31.2 percent, the developed areas followed next with an increase of 29.9 percent while the undeveloped areas, only 27.0 percent. If the per mu output is taken into account, then the developed areas showed the most rapid growth, indicating a scale of 47 percent. Hence, there is in sufficient reason to claim that town and township enterprises have been responsible for the hesitancy in agricultural production.

In addition, development of town and township enterprises has greatly increased rural economic strength, broken the closed-door state in the rural districts, rapidly increased the economic liaison and relations with the outside, led the development of communications and transport, commerce and the service trade, and promoted the development of township and village construction in the rural areas. At the same time, the enterprises have expended large sums on rural construction. In 1987 alone, they spent no less than 410 million yuan on the building of small towns and villages, making the number of villages under the organizational system in our country increase from 2,600 units in 1980, to over 12,000 units in 1987, an increase of over 300 percent, and thus stepping up urbanized construction in the rural areas. Moreover, town and township enterprises have spent large amounts of money on social protectional welfare enterprises in the rural areas, and from 1983 to 1988 alone, the town and township enterprises spent some 13.154 billion yuan on welfare enterprises in the rural areas. In the developed areas of town and township enterprises, the villages have universally set up relatively complete social welfare protectional systems and the peasants there enjoyed various kinds of medical, clinical, and health-protection services and social welfare benefits. Each year, the enterprises also have put aside a portion of profits for use on supporting and developing rural educational enterprises. In 1987 alone, rural enterprises spent 920 million yuan on education, and the development of the educational enterprise has enabled

more peasants to acquire modernized, scientific, and cultural knowledge, and thus improved themselves.

### Existing Problems and Drawbacks of Town and Township Enterprises

There is no doubt that town and township enterprises have made irreplaceable and enormous contributions to the development of the national economy. Any viewpoint or action negating or refuting them is erroneous. However, we must note that at the moment many problems do exist. If measures are not taken to restrict and remove them, then the healthy growth of the enterprises may be affected. This may further adversely affect the sustained, stable, and coordinated development of the national economy.

The principal problems currently existing in town and township enterprises are: 1) Material and technical equipment are relatively backward; some enterprises consume too much energy in production, seriously pollute the environment, and the quality of their products is poor. 2) Managers, administrators, and staff members and workers of the enterprises are basically peasants who have just left the land, are low in cultural level, and lack knowledge of modern commodity economy, and the necessary technology in management; skilled workers and backbone technicians are extremely scarce. In the two grades of rural enterprises, staff members and workers of high school, college and specialized culture, make up only 0.23 percent, whereas 32 percent of the staff members and workers are of the cultural level below primary middle school, of whom there are many illiterates and semi-illiterates. 3) In recent years the growth rate of the town and township enterprises has been too rapid. From 1985 to 1988, the growth rate was at the super-speed of 38.1 percent, equivalent to 215 percent of the average annual growth speed of 17.7 percent in the country's industrial gross output value during the same period, and became the important promotional force for the overheated development of the processing industry. 4) Too rapid an increase in investment in fixed assets. In 1988, the original value of the fixed assets of the enterprises amounted to 209.87 billion yuan, an increase of 152.371 billion yuan over 1984, averaging an annual growth rate of 38.2 percent, greatly expanding the gaps between supply and demand with respect to capital funds, energy, and raw materials. 5) Industrial structure is not rational. In such areas as geographical distribution and distribution in industry and trade, there is a serious similarity with the situation in the urban industries. Moreover, there has frequently been the tendency of rushing headlong into mass action and of developing blindly. 6) Economic effects have shown a tendency to drop. The correct treatment of the existing problems and drawbacks of town and township enterprises should not be biased or prejudiced, unlimitedly exaggerated, nor should we point at them in unjustified accusations; on the other hand, we cannot ignore them nor put them off lightly. Rather, effective measures should be adopted to overcome them gradually in the course of development,

so that the enterprises may make even larger contributions to the development of the national economy.

*Statistics in this article, the sources of which are not otherwise mentioned, were taken from the Statistical Yearbook of China (1980-1989) of the State Statistical Bureau and from Town and Township Enterprise Statistical Materials, (1978-1988) of the Department of Town and Township Enterprises, Ministry of Agriculture.*

### Footnotes

1. *General Conditions of Town and Township Enterprises in China*, compiled by the Department of Town and Township Enterprises, Ministry of Agriculture; Agricultural Publishing House, 1989 Edition, p. 143.
2. *Ibid.*

## CONSTRUCTION

### Commercialization, Urban Reform of Housing

90CE0322A Chongqing GAIGE [REFORM] in Chinese No 3, 20 May 90 pp 110-112

[Article by Dai Ling (2071 0407): "Housing Commercialization and the Reallocation of Economic Benefits"]

[Text] The ultimate goal of the restructuring of China's housing system is to realize the commercialization of housing and reduce the state's financial burden. This process will upset the psychological balance the people have long had with regard to housing. The restructuring of the housing system must take into consideration what the people can psychologically bear and remove the barrier in their minds against housing reform, so that more people will support reform. Only in this way can we reduce the resistance to reform. The crux of the problem lies in the redistribution of the people's economic benefits. So long as the readjustment is reasonable, in the sense that most people find it economically acceptable, the psychological barrier can be removed. Since psychological tolerance is based on economic tolerance, we must concentrate on finding out what the people can afford financially so that we have a firm and solid basis and the feasible precondition to the redistribution of the economic benefits.

Nowadays, housing expenditure as a percentage of the people's total consumption expenditure is rising. Overseas, in the developed countries especially, housing expenses take up as much as 20-40 percent of one's personal expenditure. In recent years, China's rural population has also been investing more on housing. Sample survey shows that the peasants' expenditure on house repair and construction as a percentage of their total income has risen from 3.2 percent in 1978 to 14.9 percent in 1988. This has become the largest expense item second only to food (see ZHONGGUO TONGJI NIANJIAN [CHINA STATISTICAL YEARBOOK] (1989) p 743). This clearly shows how important housing needs are in the consumption mix. But in the urban

workers' consumption bundle, this trend has been artificially distorted. Statistics show that the ownership rates of television sets, radios and tape recorders, washing machines, and refrigerators are as high as 103 percent, 113 percent, 73 percent, and 28 percent of all households, respectively. These rates are comparable to the level reached in Japan in 1966 when her per capita income reached \$1,000 a year. But China's per capita income is under \$400. The increase in popularity of durable consumer goods is by no means a true reflection of the urban population's consumption demand, because even in 1988, around 30 percent of the population was still having serious housing problems: Many were households without dwellings of their own or households living in crowded conditions or households living under inconvenient conditions. Allocation under the housing benefit system is the main cause behind this poor personal consumption mix. On the one hand, the system reduces "housing" expenses to a negligible part of the consumption mix; on the other hand, it prevents the citizens from making a proper allocation of their new-earn purchasing power between housing and other consumer goods; instead, the money is diverted to the scarce consumer goods (such as household electrical appliances), so that "spending" makes up a relatively large percentage of the consumption mix. While the urban population's income increased significantly between 1957 and 1988 and the per capita living expenses increased from 222 yuan to 1103.98 yuan during the period, the absolute expenditure on housing remained more or less unchanged and the relative expenditure actually fell sharply. Relevant data show that rental expenditure has decreased from 2.32 percent [of the total household expenditure] in 1957 to 0.71 percent [in 1988]. It is not right that "housing" should make up such a small part of the urban population's consumption mix in China.

The unsound housing allocation mechanism makes it impossible for the workers to freely purchase or rent their own homes; it has artificially exacerbated the shortage of existing homes. Since dwellings are collecting only symbolic rent and rent is but a negligible expense, everybody thinks of housing in terms of the more the better, and the demand for housing is insatiable. From the supply point of view, welfare-oriented rent in no way reflects the value of housing, and investment in housing is money down the drain. This adds to the state's already heavy financial burden. From the demand point of view, the allocation of housing as a benefit over-stimulates the people's extra-economic demand for housing and fosters their unhealthy tendency to seek above-standard housing. Therefore, it matters not how many houses we build, it is impossible to guarantee the fair allocation and effective utilization of housing. From 1979 to 1988, China's urban housing construction increased at an unprecedented rate: New housing for urban workers increased by 1.06 billion square meters; the per capita urban living area increased from 4.2 square meters in 1978 to 8.8 square meters in 1988. But housing shortage remained as serious a problem as it had been. Without

doubt, if this uncompensated allocation system is not changed, we will never be able to ease the housing crunch. To solve the housing problem, we must promote the commercialization of housing. This is an irreversible trend.

The basic difficulty in promoting the commercialization of housing lies in two areas: One, the fact that housing has always been provided for free of charge has created a barrier in the people's minds about its consumption; two, today's housing prices are beyond the reach of the people's purchasing power. The latter is the real obstacle to housing commercialization. Surveys show that the price of commercially available dwellings in Beijing Municipality has risen from 586 yuan a square meter in 1985 to 1,411 yuan in 1987, a 140 percent increase. In Beijing and Shanghai, the most expensive commercially available dwellings cost more than 2,000 a square meter, three-times the 1985 prices. A complete two-bedroom unit measuring 24 square meters (with actual construction area of around 36-40 square meters) costs about 65,000 yuan (based on the median construction area and house price). The expensive houses are not only beyond the reach of an average worker, even those who earn higher income find it beyond their means. So long as the wage system remains unchanged and the state is unable to extend more subsidies, there will be objective limits to how much an individual can spend on housing.

To make it possible for the citizens to move into commercial housing, we have tried some transitional methods, such as splitting the cost equally among the worker, his work unit, and the state. This is still a quasi-uncompensated allocation method. It is important to realize that we cannot just look at the flow when we promote the commercialization of housing. If the existing [stock of] houses is not included in the reform, housing allocation and prices will come under the dual-track system, and since the stock of existing housing is predominant, the housing flow will face insurmountable problems. In practice, this [quasi-uncompensated] allocation method was practiced concurrently with the uncompensated allocation method, and as a result, while some workers enjoyed free housing, others in the same unit had to pay one-third of their housing cost. This created a man-made conflict. As for the idea of simply letting the government organs, enterprises, and institutions use public money to buy commercial housing and then allocate free housing among the workers, it contradicts the original intention of building commercial housing in the first place. It does not change the economic relations between the state and individuals and turn free housing into paid housing; instead, it dampens the workers' enthusiasm in buying houses, creating an obstacle to housing reform.

To promote the commercialization of housing effectively, we must not only start with the existing public housing which definitely has the upper hand at the moment but also take into consideration what the market and the individuals can financially afford. If we analyze the market flow, we will realize the need to lower



the price of existing commercially available housing. In the near-term, those houses should be sold at cost or slightly below cost (later on, when the income level rises, they can be sold at slightly above cost) to make them affordable for some urban residents. But this would require the state's financial support. Where does the state get its money? I suggest a possibility is to sell off the existing public housing in lots.

We can sell all of the existing public housing in stages and at discount prices to the urban citizens. We should consider what the people can afford to pay today, and we should allow installment payments. To the buyer, buying a house at a relatively low price and on interest-free installments is a big economic advantage. Once the house is paid off, the ownership rights to the house will be transferred to the individual. He can resell or leave it to his children. Some people may ask, won't selling the existing public housing at relatively low prices mean financial loss to the state? I suggest that if the people are living in those houses rent-free anyway, the state will be better off selling them at a price the people can afford. In this way, the state can save on repair and upkeep and can throw away this growing burden while getting a substantial sum of money at the same time. The state can use the money to set up a financial institution to make long-term, low-interest, or no-interest loans to the people who have no place to live and enable them to own their own homes.

We should realize that even if the public housing are sold at cost, not many people can afford to buy. Particularly under the present low-rent situation, even those who can afford it would prefer taking advantage of the low rent to buying their own homes. Thus, if we want to sell the public dwellings, we must implement rent reform at the same time if not sooner, to make the renters believe that they would be better off buying than renting. Only in this way can we sell off the public housing. Then the question is, how much rent should we charge? Taking everything into consideration, I think rent should be based on the cost [of the building]. In this way, the state can recover what it has invested in housing construction, and it also helps to circulate the investment funds. Considering that wage reform has its complicated side, we can adopt the method of subsidizing rental payments when raising rent. Part of the income generated by higher rent can be refunded to the workers (families) based on the workers' wage ratio (or 60 percent based on the wage ratio and 40 percent based on the average number of workers). In this way, the state need not spend any money and we can still redistribute the economic benefits among the renters, so that those with larger dwellings pay more rent and those with smaller dwellings still enjoy the economic benefits. We can put an end to the situation where those in high places or having important connections get better housing, and we can make housing rights equal for all before the commodity economy.

The sale of public housing produces a psychological effect which differs from that of a general increase in rent. Putting aside the question of whether a general

increase in rent will indeed be accompanied by a corresponding increase in wages, even if the two should increase by the same amount, for those who live in public housing, there is only use-right and no transfer-right; they have no right to determine the disposal of their dwellings and even less right to leave them to their descendents. Reform will prompt them to focus their attention on comparing rent and wages. Even if the two should increase at the same rate, they will still complain that wages are increasing too slowly. But if we sell the existing public housing at a presently affordable price, after these people pay for these houses in installments and come to own their own homes, they will enjoy a kind of psychological satisfaction. This feeling will offset to some degree their temporary inability to adjust to the change in the consumption mix. Facts have proven that given the correct guidance, the people's consumption mix will change. After all the public dwellings are sold, it is important to provide complete follow-up services. House repair and maintenance, especially, have a direct impact on the people's confidence in commercial housing, and so the real estate companies must put society's interests first and earn the people's trust with quality service.

Because the present allocation system is unreasonable, there are serious inequities in the public housing system. A few powerful leading cadres monopolize the larger and better dwellings. If everything is sold to the occupants, those who have larger units to begin with will get the extra benefit, and some people will find it objectionable. Therefore, when selling public housing, we should take appropriate steps to mitigate any unfairness to avoid paying too high a price for reform.

In short, although in practice the reform of the urban housing system has made little substantive progress, if we look at the amount of propaganda and public opinion preparations, the government departments and theoreticians indeed have done a lot of work. The masses have made the necessary psychological adjustments and are mentally prepared to accept the commercialization of housing. So long as the reform program is reasonable and workable, the people will embrace it. However, to promote the wholesale commercialization of housing, there is also a matter of timing. In the last two years, prices have been rising and inflation has been in the double digits. Some urban workers have already experienced a decline in living standard compared to a couple years ago. We are not ready to promote wholesale commercialization of housing at this time. In my view, housing should eventually be commercialized, but we must wait until the economy improves and prices stabilize before we proceed. For now, we should review the experiences gathered in the pilot cities and concentrate on doing studies and making forecasts and formulate a feasible program, laying the groundwork for the eventual, all-out commercialization of housing.



## COMMERCE

### Shanghai Vice Mayor Outlines Commercial Sector Goals

90CE0335A Shanghai SHANGHAI JINGJI  
[SHANGHAI'S ECONOMY] in Chinese No 3,  
30 May 90 pp 6-10

[Article by Zhuang Xiaotian (8369 2556 1131), Vice Mayor of Shanghai: "Strive To Make Commercial Work a Success"]

[Text] Stabilize and Invigorate the Market

1. Further stabilize the market. The supply of primary and nonstaple foodstuff and basic daily necessities must be ensured. The supply of "black, white, and green" must continue to be a priority. The supply of "large, medium, and small" (popular breakfast, articles for the elderly and middle-aged, and small commodities) must be put on the agenda. This year the municipal government continues to supervise and control 51 commodities. The Shanghai Planning Commission hands down a plan of commodity supervision and control, and agriculture turns over supplies to the state, industry allocates and delivers goods, and commerce procures accordingly. Commodities outside the plan of supervision and control should come under reinforced coordination with the conclusion of production and marketing agreements. Grain, cooking oil, sugar, salt, and pork are incorporated into the plan. Their coordination, allocation, and transportation must be organized and the plan must be strictly implemented.

2. Commodity price increases must be strictly controlled. The plan is to limit commodity price increases to under 16 percent in the municipality this year, while going all out to hold the line at 14 percent. The municipal government has announced that there would be no price increases for a host of daily necessities in order to set the people's minds at ease. Meanwhile, the various departments must step up their leadership over price work. On the one hand, they must plan the introduction of price regulation measures painstakingly. On the other hand, they must sternly clamp down on price increases, both automatic and opportunistic. The planned management of the prices of key commodities must be improved, increasing as appropriate the number of product varieties under state price planned management. An effort must be made to stabilize the prices of basic daily necessities and ensure the basic stability of "food basket" prices. The drive to rectify all fee-setting standards should be continued. Indiscriminate price and fare increases in the intermediate stages must be strictly prohibited. Commodity price supervision and inspection must be strengthened.

3. Commodity sales must be expanded. Urban and rural markets must be vitalized energetically. First, an active effort must be made to enrich the Shanghai market

through an infusion of high-quality, popular, and sought-after commodities from out of town. Since reform and the open policy have been underway, the dual-direction flow of goods between Shanghai and other places has been expanding day by day. Of the commodities purchased by the commercial sector in Shanghai last year, those that came from out of town already accounted for 47.4 percent. Not only has there been a large inflow of agricultural byproducts from other provinces, but foreign industrial goods of daily consumption have also been entering the Shanghai market in large quantities. In the future, Shanghai should make its economy even more export-oriented, exporting more and more of its products overseas or to other provinces and municipalities. Accordingly, we demand that the commercial sector fulfill its dynamic circulation role. On the one hand, it must study policies to make the Shanghai market even more open, an arena where all kinds of high-quality popular commodities compete. This way the Shanghai market will become more prosperous and vitalized. On the other hand, we must cultivate the idea of the great market, work hard at the procurement of local products, live up to the role of commerce in regulating the flow of goods, and make the Shanghai market more effective. Second, clear up circulation channels and send large quantities of industrial goods to the countryside. Departments in charge of commerce at all levels must give the agricultural market more attention and supply peasants with industrial goods of daily consumption preferentially. Last year sales rose more slowly in the market in the municipality's outlying counties than those in the urban areas. An important reason for the decline in consumption in the countryside is clogged circulation channels. Last winter and this spring, the municipality mounted several large campaigns to ship goods to the countryside, which were well-received by peasants and residents in the outlying areas and enabled the outlying markets to improve. The positive tendency of channeling industrial goods to the countryside must be maintained. Departments in charge of commerce and supply and marketing cooperatives at all levels must strengthen coordination and bring the relationship between city and countryside even closer. Supply and marketing cooperatives should make the countryside the focus of their work, increasing the number of marketing points for citizens' shopping convenience. By capitalizing on their characteristic of extensive ties and contacts with other provinces and municipalities, supply and marketing cooperatives should do a good job in marketing and increasing sales. Third, a vigorous effort should be made to develop "famous, special, superior, and new" products in accordance with market needs. Strongly support industrial production organized by the commercial sector, speed up its technical transformation, adjust the product mix, develop new products assiduously, and revive and develop a host of "famous, special, superior, and new" products, liberalizing policies as appropriate as far as prices and internal distribution are concerned. Famous brands and unique products should be developed to make the Shanghai market even more diversified and attractive.

### Promote Production

1. Support agricultural production vigorously and put "food basket engineering" to work. Agriculture is the cornerstone of the national economy. The Fifth Plenary Session of the 13th CPC Central Committee stressed once again that we must strongly support agriculture. Since commerce and agriculture are closely related to each other, we are duty-bound to support agricultural production. The commercial sector must ensure the supply of chemical fertilizers, pesticides, plastic film, and other agricultural capital goods. In addition, it should step up specialized management to provide good services before, during, and after production. After its introduction in the outlying counties, "food basket engineering" has provided urban areas with a large amount of nonstaple foodstuff and enriched the citizen's "food basket." There must be continuing support for its present scale of production. In places with the right conditions, we can make the production, transportation, and marketing of agricultural byproducts a "coordinated process" with processing industries as its leader, making the most of scale management. The procurement and marketing policy of agricultural byproducts must be stabilized, planned management must be strengthened, and the production plan, marketing plan, and procurement contracts must be strictly enforced. An effort must be made to achieve a comprehensive balance between financial subsidies, price policy, and fodder supply. Because of a steep shortfall in fodder this year, the livestock industry has encountered enormous difficulties. All municipal and county departments involved should work hard together to secure fodder resources in every possible way. The fodder industry must strive to turn out high-quality mixed fodder, improve product quality, and seek greater efficiency from science so as to generate more output from the same amount of fodder.

2. Promote industrial production energetically and open up more markets actively. Industrial production in the municipality is facing considerable difficulties at the moment mainly due to a weak market, a product mix not suited to needs, and fund and raw materials shortages in some factories. To enable industrial production to rebound and expand gradually, the commercial sector should proceed from the overriding objective of stabilizing the Shanghai economy and invigorate circulation in every possible way so that goods flow smoothly, which would help stimulate industrial production. To begin with, we must make the most of state-operated commerce and supply and marketing cooperative commerce as the main "reservoir." The government should work out appropriate policies, laying down the scope and quantity of the commodities for which a reserve supply is needed and the duration of keeping such a reserve. The bank should make it a priority to provide commerce with funds required to procure commodities over and above the reserve, offering loans at reduced interest rates or with lower penalties. In the case of key commodities, the interest rate on procurement loans should be subsidized. State-operated wholesale commercial enterprises should

develop a stronger sense of market responsibility and fulfill their role as "reservoir." Second, commerce-industry cooperation must be intensified and a domestic market for industrial goods of daily use developed. In Shanghai, commerce and industry each have their respective strengths. In recent years, however, the two scramble for sources of merchandise when the market is booming and compete for market shares when the market is sluggish. Their failure to act in unison has undermined Shanghai's superior position. Years of practice prove that without stable production, there can be no stable market, and without a stable market, there can be no stable production. Commerce and industry should work together and jointly develop a domestic market for industrial goods of daily use. Commerce-industry cooperation may proceed from the reality in the trade concerned and assume a variety of forms. One such form is the enterprise group where the relationship of subordination of the enterprise remains unchanged. As far as the distribution of interests is concerned, risks as well as profits are shared. In another form, the commercial sector acts as the general agent and general salesman. This is the approach of the comprehensive corporation. Integration can take place within one product, within one factory, or within one wholesale branch company. Some experiments are already under way right now in commerce-industry integration. We have already in place some joint marketing companies established jointly by commerce and industry that practice independent accounting as well as loosely organized joint marketing groups that practice nonindependent accounting. We can select a few more industries where the conditions are right to carry out pilot projects. When the need arises in the course of integration to redistribute the interests of commerce and industry, there should be consultation among the bureaus in charge of the various parties along with the finance agency. Provided the total finance contracting figure for the various parties remains unchanged, the finance department may adjust their contract base figures. Furthermore, the commercial sector must take advantage of its access to information and promptly provide the industrial sector with market information to help factories adjust their product mix and organize production in accordance with market needs. Such effective methods as importing advanced foreign products for bidding and holding exhibitions should be continued.

### Rectify Circulation

1. Continue to rectify wholesale commerce. The first step—rectifying the wholesale commerce of industrial consumer goods and medicine—has now entered the stage of comprehensive balance. The second step is to rectify the wholesale commerce of key agricultural byproducts. This is an important part of the drive this year to further rectify the circulation order. The scope of the rectification of the wholesale commerce of key agricultural byproducts is the wholesale commerce of leading commodities among grain, cooking oil, meat, egg products, aquatic products, fresh and dried fruit. The

criterion of rectification basically follows the rectification of the wholesale commerce of industrial consumer goods. All companies that do not meet wholesale business requirements, that engage in reselling for profits, speculation, and other illegal operations, and whose existence cannot be justified will not be allowed to continue in the wholesale business. Also, rectification should proceed from the characteristic of agricultural byproducts. Each should be handled differently, depending on the circumstances. First, the thrust of rectification should be directed at principal agricultural byproducts such as rice (including paddy) and flour (including wheat) among grains; and pork, beef, and mutton among meats. Second, wholesale enterprises of agricultural byproducts must meet other special requirements stipulated by the state, such as those concerning sanitation, freshness preservation, and environmental protection. Third, the wholesale of rationed agricultural byproducts subsidized by the treasury must be handled by wholesale enterprises designated by the department in charge of commerce, with no exception. Other enterprises shall not engage in the wholesale of these products. Fourth, wholesale enterprises which deal in deregulated agricultural byproducts should be allowed to continue their business provided they meet the requirements for wholesale enterprises and operate in accordance with the law.

2. Continue to rectify individual commerce. Individual commerce must continue to be rectified, trade by trade. After individual commerce in specific trades is rectified, the work focus should shift to the comprehensive management of individual commerce. The management system of individual commerce should be straightened out. There should be a clear division of labor between the municipality and the district, with each doing its thing. The municipal department in charge of commerce must intensify the management of the trades, while the various districts and the comprehensive management departments concerned should step up day-to-day management, beginning with market management, commerce and industry management, tax management, and price management, outlaw illegal dealings, and protect legal operations. In addition, the industrial structure should be guided and adjusted as need be, individually owned bars and hotels should be curbed, and certain repair shops and other services should be developed.

3. Rectify sales commissions in commerce. Sales commissions are an economic phenomenon that occur in the course of developing a commodity economy. Sales commissions exist not only in commercial circulation but also in other circulation arenas. While sales commissions stimulate sales up to a point, we absolutely must not ignore their negative and corrupt side. We may say that the proliferation of shoddy and fake products in the market is closely related to the popularity of sales commissions. To protect the legitimate interests of vast numbers of consumers and safeguard the reputation of socialist commerce, we must rectify sales commissions in commerce. Mayor Zhu Rongji [2612 3579 1015]

instructed thus in a study report by the municipal Finance and Trade Office and the research office of the municipal government, "Sales commissions must not be recognized or protected. While they cannot be abolished in the short haul, they must come under heightened management and stricter control. As the economic order is rectified and social climate changes for the better, sales commissions must be done away with firmly. At present, sales commissions must not be legalized." In accordance with the spirit of Mayor Zhu Rongji's instruction, we must begin rectifying sales commissions in the commercial sector step by step. First of all, the units themselves should be required to clean up their act. Rectification will then follow based on the principle of "restricting, guiding, and managing." Restricting means limiting the use and scope of sales commissions. Guiding means stipulating explicitly that all commissions must be entered in the books. Keeping and dividing up sales commissions in private should be strictly prohibited. Managing means drawing up a distribution method for the sales commissions earnings of an enterprise. The enterprise shall pay taxes on those earnings spent on bonuses for employees as required by law. All commercial enterprises must strictly enforce regulations on intensifying the management of sales commissions in commerce, copies of which were printed and distributed at the municipal commercial work conference this year. Those found pocketing sales commissions on the sly after the regulations are issued would be dealt with as if they were found taking bribes. The rectification of sales commissions in commerce is an important part of the rectification of the circulation order. It is also what the construction of the socialist spiritual civilization badly needs. Departments in charge of commerce at all levels must take the rectification of sales commissions seriously, step up leadership in earnest, educate the rank-and-file commercial cadre and worker to be honest in performing their official duties, strictly enforce financial and economic discipline, and deal harshly with those who continue to keep and divide sales commissions among themselves surreptitiously. Finance, tax, and auditing departments at all levels must tighten inspection and supervision and act strictly in accordance with the law so that the style of commercial operations will improve appreciably.

4. Gradually bring about the unified management of commerce society-wide. First, intensify administrative management. Departments in charge of commerce at all levels—municipal, district, and county—must continue to improve the organs of management. In conjunction with other comprehensive management departments including the commerce and industry, tax, and price departments, departments in charge of commercial work society-wide should step up the unified management of commerce in accordance with the relevant national laws, regulations, and policies. Beginning this year, they should examine and approve the opening, closing, and modification of all kinds of commercial enterprises based on the operating requirements for the trade in

question. Market regulations must be perfected gradually and enterprise behavior standardized. Second, trade management should be intensified. All 23 existing trade associations in commerce in the municipality should become a bridge between government and enterprises. On the one hand, they should serve their trade enthusiastically. On the other hand, they should exercise some functions of trade management as commissioned by the government. Trades still without a trade association should quickly establish one. A Shanghai federation of commercial trade associations should be set up under the leadership of the Finance and Trade Office of the municipal government to make better use of the trade association by helping to guide the commercial trade association go about discharging their work in trade management, thus putting them to better use. Third, strengthen the management of commercial points. A municipal office of network points management should be set up under the Finance and Trade Office of the municipal government within the year. The major functions of the office of network points management are to strengthen the planning, construction, and management of commercial network points within the city; formulate policies on the construction and management of commercial network points and see that they are consistent with one another; raise and manage commercial network point construction funds, and assume responsibility for the unified management and sound use of newly established commercial network points. Fourth, conduct pilot projects in trade-wide management, possibly starting with the restaurant business and the service sector. The Finance and Trade office of the municipal government should draw up the "Provisional Regulations for the Management of the Restaurant and Service Trades" and authorize the municipal food service company to manage state, collective, jointly operated, and individual restaurants in the municipality. After we have gained some experience, the experiment can be extended to other trades.

#### Exercise Strict Management

1. Conduct the "double increase and double economy" campaign vigorously to raise profitability. Departments in charge of commerce at all levels should achieve in earnest the goals and mission of "double increase and double economy" this year. Even as they make an effort to increase earnings and cut spending, open up markets diligently, and expand commodity sales, they should work hard to lower circulation costs and circulation losses in order to increase profits appreciably.

2. Master management, plug loopholes, and reduce losses. A leading group has been set up in the municipality to tackle this matter and trim losses by 200 to 300 million yuan. Provided there are stable market supplies, reducing losses mainly means decreasing the losses in the buying and selling of grain, cooking oil, meat, egg products, and vegetables. Toward that end, the following loss-cutting measures should be taken. First, intensify the planned management of cooking oil and nonstaple foodstuff. Strictly control the total supply volume of

low-priced grain, oil, and nonstaple foodstuff. Tighten the return management of coupon supply. Unless approved by the municipal government or departments designated by the municipal government, supplies in excess of the plan and ration will not be subsidized by the treasury. Second, clean up the circulation channels of low-priced oil, grain, and nonstaple foodstuff. Make a mighty effort to plug loopholes. Firmly prohibit illegal activities like illegal purchasing, speculation, and the illegal sale of commodities outside the municipality, and investigate all violations. Third, strive to improve management. Carefully organize the sensible allocation and transportation of grain, oil, and nonstaple foodstuff. Enlarge the proportion of direct allocation. Strictly restrict the increase in circulation costs. Enforce the responsibility system for seeing that losses are trimmed level after level. Money-losing enterprises that meet requirements may introduce a loss contracting system; losses in excess of the contract will not be made good. But if they manage to cut losses, the money thus saved will be divided up. This way responsibility and interests are linked to each other in order to mobilize the enterprise's enthusiasm for increasing incomes and cutting expenses. Fourth, vigorously develop new income-generating businesses to cover the losses. All wholesale enterprises of grain, oil, and nonstaple foodstuff must fully utilize the existing supply of goods, equipment, and human resources and develop all sorts of legitimate income-increasing businesses. Income-increasing projects that have been clearly authorized must be put into effect aggressively to pay early dividends.

3. Strengthen basic management to promote enterprise upgrading. The starting point in rectification is the grassroots and the focus is large and mid-sized commercial enterprises. Units which have earned the title of Class 2 enterprise as well as those designated as advanced enterprises at the municipal level can launch pilot projects in standardized management and comprehensive quality control. Enterprises must adhere to the socialist direction in their operations, comply with national laws and regulations in an exemplary manner, improve operating and managerial mechanisms, and make the most of workers in democratic management. To standardize management vigorously, the business activities of enterprises as well as their services and the construction of the spiritual civilization should all be included in the scope of standardization. The upgrading of enterprises should be continued vigorously. Proceeding from realities, some districts have drawn up district-level enterprise standards, which has proved instrumental in stimulating enterprises to tackle management. We demand that they review experience and popularize it in earnest so that large numbers of small- and medium-sized enterprises have an example to follow in management and the standard of management will improve appreciably.

4. Improve enterprise reform. The contracting of large- and medium-sized commercial enterprises and the leasing of small commercial enterprises must continue

and be improved gradually in practice. Because of changing circumstances, some enterprises demand that the contract base figure be adjusted, while others take a wait-and-see attitude toward contracting. After conducting some studies, we believe that there are indeed nonsubjective reasons why some enterprises fail to fulfil contract targets and some greatly exceed them, but taking into account the fiscal state of the nation at present, we think the overall contract base figure should remain stable, leaving certain exceptionally difficult cases to be dealt with separately. As for the contents of contracting, simple profit target contracting may be replaced by profit contracting, social benefit contracting, and enterprise development contracting, thereby encouraging the enterprise to reform its internal operating mechanisms and expediting the healthy development of the contract management responsibility system. The management of leased enterprises should be intensified. There should be continuity and stability in the leasing policy. Also, there should be regular inspection of how supply and price policies are applied to leased enterprises. The employee democratic management system should be further improved, and internal distribution should be regulated reasonably, taking into consideration the interests of all three parties—state, collective, and individual—and keeping the necessary reserves, instead of using them up. In short, we must promote what is beneficial and eliminate what is harmful, further the strong points and sidestep the weakness to develop a full set of management methods for small leased commercial enterprises.

#### Improve Services

These are the major objectives of this year's work. First, tackle the priorities. We demand marked improvements in the three trades—"black, white, and green" and "five streets and one market." We also demand that the various districts clearly designate a group of neighborhoods as the principal target of service improvement. Second, we should place different levels of demands upon different units. Municipal-level large commercial enterprises should provide "three comprehensive" services; they are expected to improve commodity quality, the shopping environment, and service attitude across the board. As for large- and medium-sized commercial enterprises, we demand that two-thirds of them meet institutionalized standards within the year. Regarding small commercial enterprises, our demand is that they continue to consolidate and further the achievements of "three demands, three nos." Third, the spirit of organizing at different levels must pervade quality and service competitive activities, the main focus being at the district level. The municipality's principal function is to organize exchange and select the advanced at the municipal level. We must concentrate on the following in our work:

1. Intensify ideological education and improve the caliber of the corps of commercial workers. Leaders at all levels should seize the current favorable opportunity to further professional ethical education, advocate the

moral principle of "me for others, and others for me," and cultivate socialist interpersonal relations. We must make good use of model workers and advanced personalities as examples, develop a host of pacesetters in every trade and every profession so that there are role models for people to emulate and a direction for them to follow, thus setting the stage for a wave of enthusiasm to emulate the models of advancement. A mighty effort should be made to put the training of commercial cadres and workers on a sound footing. The training of cadres above the district company manager level should be the responsibility of the municipality, while that of cadres below should be taken care of by the district. Essentially the contents of training should include enterprise management knowledge and commercial policies. Sales personnel in the commercial system, in the tertiary industry in society, and in individual commerce, should all be given comprehensive training under unified planning by the trade concerned. The training of sales personnel should concentrate on services and emphasize the practical. Short training courses should be given to sales personnel in small groups when they are released from their regular work. Through training, we should equip the rank-and-file sales person with significantly better reception methods, service language, and professional abilities. This April was the first anniversary of the passage of the "Regulations of the Municipality of Shanghai on the Protection of Legitimate Consumer Interests" by the Shanghai People's Congress. The commercial department should step up the education of the citizenry in the regulations and enhance the initiative of large numbers of commercial cadres and workers to implement the regulations. In addition, it should put together a team to inspect compliance with the regulations in earnest and promote actual work. At the same time, commercial departments at all levels should vastly heighten their sense of service. The department should serve the grassroots, wholesale should serve retail, and the department in charge should serve the first front.

2. Set standards of service quality and give specific substance to "three demands and three nos." Service quality standards have been initially defined as "five goods." First, good product quality. For instance, shoddy and fake commodities are not sold. Prices are set according to quality. The "three guarantees" (repair, exchange, and return) are offered in the case of industrial goods of daily use in accordance with regulations. Second, good policies. For instance, the supply of rationed commodities must be ensured. Also, coupons must be collected according to regulations. In the case of popular breakfast items and small commodities, the commercial enterprise must carry the goods in the varieties mentioned in the commodity catalog. Supplies must be available at the wholesale end and at the counter. Third, they must do business in accordance with the law, which essentially means they must comply with laws and regulations on prices and not raise prices without authorization. Commodities on sale must bear labels clearly indicating their name, place of production,



specification, unit of measurement, and price. Commodities with official set prices, official guidance prices, and market prices must bear price tags in red, blue, and green, respectively. Laws and regulations on measurement must be followed. Weighing apparatus control must be strict and such apparatus must work properly with no overweighing. Fourth, good counter services. Sales personnel should display initiative, enthusiasm, and patience. They should offer good services and observe counter discipline. They should answer customers' questions truthfully and offer services based on consumer demand, such as advance registration, delivery to the door, and after-sale service, etc. Fifth, the stores must look attractive, which means they should be clean with a diversified range of commodities on display. The service quality standards of a trade should be considered and determined in detail by the trade itself in light of its actual conditions. The department in charge at the higher level should regularly inspect the way service quality standards are being enforced and urge their compliance.

3. Improve the quality of service standards. On the one hand, we must rely on internal enterprise supervision. On the other hand, we must intensify external supervision. Within the enterprise, there should be leaders in charge of services. Also, a system should be set up inside the enterprise to inspect and evaluate. Outside the enterprise, social and public opinion must be mobilized to put commercial services under intensified surveillance. There are plans by the municipality to set up a special service inspection team to investigate commercial activities openly or covertly and constantly examine ways to improve services. Moreover, all sorts of special investigations should be launched to look into bogus, shoddy, and fake commodities, check labelling, and examine weighing apparatus in order to solve some of the more glaring service problems. The Commerce and Industry Administrative Bureau, worker price supervision station, the technology supervision bureau, and the news media constitute a vital force in supervising commercial work. We must take pains to make use of them to improve the quality of commercial work.

### Shanghai To Build Largest Commercial Center

OW0708083590 Beijing XINHUA in English 0630  
GMT 7 Aug 90

[Text] Shanghai, August 7 (XINHUA)—Shanghai City in east China will build the country's biggest modern commercial center in its newly opened Pudong development area.

Plans call for the center, covering an area of 14.7 hectares, to have 408,000 square meters of floor space with various commercial, financial and cultural facilities. Seven high-rise apartment and office towers will be built at the center.

Construction will start by the end of this year.

Since Shanghai announced its Pudong development plan last April, the area has become a major investment target for domestic and overseas investors.

## FOREIGN TRADE, INVESTMENT

### Scholar Assesses Macroeconomic Regulation, Foreign Trade

90CE0227A Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese No 4, 11 Apr 90  
pp 41-47

[Article by Chen Jiaqin (7115 1367 0530) of the Finance, Commerce, and Commodities Institute, Chinese Academy of Social Sciences [CASS]: "On Establishing and Perfecting a System of Macroeconomic Regulation and Control Over Foreign Trade"]

[Text] As China intensifies the restructuring of its foreign trade system, macroeconomic regulation and control of foreign trade, which has traditionally been dictated primarily by the state via administrative means, is now in the midst of a tremendous shift toward indirect control via economic means. This essay probes several issues involved in establishing and perfecting a system of macroeconomic regulation and control over foreign trade.

### I. The Importance of Establishing and Perfecting a System of Macroeconomic Regulation and Control Over Foreign Trade

Under a socialist, planned commodity economy, as China intensifies the restructuring of its foreign trade system and expands its policy of opening to the outside world, people understand more and more the importance of comprehensively applying all economic, administrative, and legal means to institute macroeconomic regulation, control, and supervision of foreign trade. The reasons are as follows:

1. Establishing and perfecting a system of macroeconomic regulation and control over foreign trade will help us to coordinate the relations among diverse interest and to spur enthusiasm, in various quarters, on the subject of export expansion. Foreign trade is an important component of the national economy and, as international exchange, imports and exports alike are intimately linked to domestic production, exchange, distribution, and consumption. Consequently it inevitably has an effect on how economic interests in various quarters relate to one another. All measures that encourage, limit, or prohibit the export of commodities may affect profit relationships among diverse economic sectors. Therefore, we must guide and regulate this process by adopting the proper economic measures (including exchange rates, tariffs, taxes, credit, and other economic levers). At the same time, we must supplement these means with the necessary administrative measures (including import permits, quotas, state planning, etc.) and legal measures



to guarantee their success and thus achieve our goal of stimulating initiative and expanding exports to produce more foreign exchange.

2. Establishing and perfecting a system of macroeconomic regulation and control over foreign trade will help us to breach trade protectionist restrictions and stand united against the outside world to safeguard China's macroeconomic interests. In the world today, the continued proliferation of regional foreign trade blocs and national administrative intervention, and the growing intensity with which nations, particularly the developed nations, are adopting trade protectionism featuring non-tariff barriers, are placing various kinds of restrictions on exports from developing nations. Simultaneously, due to imperfections in the legal system governing foreign trade, during the past several years of decentralized foreign trade management, the legal sensibilities of some foreign trading and industrial trading companies and some export enterprises that have direct foreign operating privileges, have become blunted to the extent that various cases of illegality and legal disputes have arisen in the foreign trade sphere. Consequently, if we wish to breach trade protectionist barriers in our foreign associations and safeguard China's macroeconomic interests, we must stand united against the outside world and compete by countering monopoly with monopoly. Obviously it is also crucial for us to firmly establish legal sensibilities, enhance consciousness of the law, and be adept at using legal means to handle assorted foreign trade cases and disputes.

3. Establishing and perfecting a system of macroeconomic regulation and control over foreign trade will help us to expand exports and produce more foreign exchange, thus safeguarding China's foreign exchange revenues. This should be one of the most crucial tasks of macroeconomic regulation and control over foreign trade. For instance, by applying various economic levers in a comprehensive fashion, we could implement policies slanted toward the export industry on any products that have a high added value due to intensive processing or precision machining, and at the same time we could place suitable restrictions on exports of various primary products and rough manufactured goods. Doing so is one major means of ensuring that China expands foreign exchange earnings on exports and increases foreign exchange reserves. It is also the fundamental route toward realizing the "two transformations" in China's export commodity mix. To cite a further example, by correctly applying administrative measures we can strictly enforce export permits, the quota management system, and the indispensable mandated planning system, and implement planned exporting geared to international market needs. In this way, not only can we effectively overcome such things as excess exporting, victory through numerical superiority, and the lack of focus on economic returns, we can also, as appropriate, raise selling prices on exports and thus vastly increase the exchange rate per unit of export commodities.

## **II. The Essential Content, Functions, and Pattern of Goals in a System of Macroeconomic Regulation and Control of Foreign Trade**

A system of macroeconomic regulation and control over foreign trade should include the state's function to apply macroeconomic regulation, control, and supervision to the overall foreign trade orbit. This function is an element of superstructure.

### **(I) The Essential Content of a System of Macroeconomic Regulation and Control of Foreign Trade**

1. We should organically integrate the planned economy with market regulation, and we should regulate the system promptly, as needed, based on changes in the economic orbit. As required by the principle behind integrating a planned economy with market regulation, the general direction or overall goal of restructuring China's foreign trade planning system should be to take steps wherever suitable to shrink the scope of mandated plans and expand the scope of guiding plans and market regulation, thereby uniting planned guidance and market regulation. Beginning in 1985 China discontinued its practice of formulating and assigning procurement and allocation plans for separate commodities and switched to having the Ministry of Foreign Economic Relations and Trade issue a guiding plan for overall foreign exchange earnings on exports. Consequently, there has been a drastic reduction in the assortment of commodities under mandated state planning. The state now limits itself to issuing quantitative plans for export commodities for which the various state ministries (and commissions) are directly responsible. As far as imports are concerned, they are no longer subject to separate commodity import plans except for a few large-volume commodities and complete sets of major equipment, as well as imports governed by trade agreements, guiding plans issued by the Ministry of Foreign Economic Relations and Trade in accordance with the state plan, or centralized management dictated by the head offices of specialized corporations. The departments using or ordering the goods are merely assigned foreign exchange quotas that they may freely entrust to foreign trading enterprises to import goods for them. Export production companies that have overseas trading and operating privileges may import goods themselves. The essential difference between management by guiding plans and management by mandated plans lies in the difference between their regulating mechanisms. Under a guiding plan, foreign trade enterprises and production enterprises engaged in direct exporting depend very little upon state administration and management: they rely primarily upon the state's regulatory functions—its comprehensive use of diverse economic levers in response to various market signals to guide the enterprise in fulfilling the state's import and export plans. By contrast, the regulation and control methods applied under a mandated plan rely chiefly upon the state's administrative system and commands, which are highly compulsory. However, the use of a guiding plan to lead China in

foreign trade has, after all, just begun, and as a consequence we must continue to probe and perfect, through practice, the ways of comprehensively applying various economic levers and the best means of putting the regulatory functions of the guiding plan into effect in foreign trade. Simultaneously, in foreign trade we should also place particular emphasis on the market's regulatory role. It is common knowledge that foreign trade is conducted on the world market and reflects commodity trading relationships between nations. It is not the same as domestic trade. In today's international trading, because the trade volume of developed Western nations accounts for the vast majority of the total world trade volume, in foreign trade the characteristics and exchange patterns, as well as the scope and extent to which the law of value plays a role, are all very different than they are in domestic trade. In addition, foreign trade is directly and heavily influenced by the new world-wide technological revolution, world economic growth, and global political factors. Consequently, the various features of the world market—the rapid changes and wide fluctuations in world market situations and requirements, the fierce competition, and the extraordinarily keen fighting in "trade wars"—force every nation that participates in international trade to emulate them in a highly sensitive fashion in order to adapt to the demands of international competition. However, our stress on the role of guiding plans and market regulation does not imply that we can ignore the guidance of essential mandated state planning, because mandated planning for the import and export of some large-volume, sensitive commodities plays an extremely significant role in guaranteeing foreign exchange revenues for the state, ensuring that the chemical fertilizers, grains, steel products, and lumber China desperately needs are imported, guaranteeing the supply of technology and equipment necessary for state-planned construction, and balancing our international revenues and expenditures.

2. We should make comprehensive use of assorted economic levers to transfer macroeconomic regulation and control of foreign trade from the province of direct administrative means to the province of indirect economic means. In the past, due to the influences of product economic theory and a highly centralized planning system, the state regulated, controlled, and supervised foreign trade enterprises primarily through administrative measures: it implemented a system of mandated plans, import and export permits, and supervised quotas. The state centrally fixed assessment standards, received enterprise profits, and also paid for enterprises losses. Under this system of foreign trade management, state departments responsible for foreign trade administration and management intervened in all economic activities that a foreign trade enterprise undertook, including planning, buying and selling, financial affairs, and so forth. Within an enterprise there was no flexible action mechanism; that is, there were neither internal motive forces nor external pressures, to the extent that foreign trade enterprises had no means of achieving truly autonomous, relatively independent operation. As a

result enterprises had difficulty stimulating their own enthusiasm or creativity. Now that China has opened up to the outside world, this old method of relying on chiefly administrative measures and employing direct state intervention in foreign trade enterprises is no longer suited to the objective requirements of a socialist planned commodity economy, or to the objective needs of a rapidly changing international market. This requires the state to comprehensively apply various economic levers, based on its analysis and forecast of macroeconomic variables in foreign trade, to regulate, control, and guide enterprise production and operations. Only in this way can we bring internal enterprise flexibility into play and stimulate enthusiasm among producers and managers to expand exports, produce more foreign exchange, and work hard to increase economic returns.

3. As we apply economic measures we must supplement them with essential administrative and legal measures. (1) The administrative measures in macroeconomic regulation and control primarily involve the Ministry of Foreign Economic Relations and Trade (including the offices of its special agents in each major port), which unifies supervision and issues import and export permits, centrally oversees quotas and restrictions, and, via mandated and guided plans, applies macroeconomic regulation, control, and supervision to import and export trade. The implementation of these measures is largely achieved under the authority of leading bodies in the foreign trade sector. If they lack the authority or have insufficient authority, such that policies from above are met with countermeasures from below, or that orders and prohibitions cannot be enforced, these kinds of administrative regulation and control measures are hard pressed to produce the anticipated results. The enforcement of any such administrative regulation and control measures is relatively stable—there cannot be unpredictable changes in policy or casual modifications—and yet also may fluctuate along with changes in the objective economic and political situation. We must realize that under runaway macroeconomic foreign trade conditions, when there is a serious imbalance in international payments, administrative means of regulation and control have many advantages: they are highly centralized, narrowly focused, and produce quick results. However, at the same time it must be pointed out that when government and enterprise are separated from each other, if we rigidly choose to intervene with too many administrative regulation and control measures, more often than not we will create confusion by issuing subjective, one-sided, capricious, and arbitrary orders. The lower levels, particularly the enterprises, will have no autonomy because they are passively carrying out instructions issued by higher level authorities, and will find it difficult to stimulate their own initiative or creativity. (2) The legal measures in macroeconomic regulation and control occur when the state, in response to foreign trade development needs, formulates relevant foreign trade laws, decrees, and regulations, as well as various rules and provisions with which to safeguard the nation's overall interests and the status of foreign trade enterprises and

export production enterprises as legal entities. Given China's expanded accessibility to the outside world, the use of legal means to enhance macroeconomic regulation, control, and supervision of foreign trade is obviously even more crucial. Because our foreign trade legal structure has not yet been perfected, in the past several years foreign trade operating procedures in China have been relatively chaotic. This has become one of the major limiting factors on foreign trade growth in China. For example, in the foreign trade sphere in recent years there has been domestic procurement at jacked-up prices, while there is price-slashing competition to sell abroad; some foreign trade companies have not been provided with the sources of export goods and circulation channels stipulated in relevant regulations; some companies have low credit and have been unable to fulfill their agreements, thus affecting our overseas reputation; and there has been a constant stream of contract disputes, anti-dumping disputes, and fraud. All these chaotic phenomena, if not handled through legal channels according to the relevant laws and regulations promulgated by the state, or according to foreign laws, international pacts, and international trade conventions, would be impossible to resolve through economic or administrative means alone.

Thus, naturally, it has become the order of the day to enhance work on legal institutions concerned with foreign trade and to make proper use of legal measures to supervise foreign trade activities.

## (II) The Major Functions of a System of Macroeconomic Regulation and Control of Foreign Trade

1. To exercise the management functions of a system of macroeconomic regulation and control of foreign trade, we must safeguard normal procedures in the foreign trade market. Foreign trade is also closely linked to domestic trade and cannot be completely divorced from the domestic market. Therefore if we are to exercise the supervisory functions of a system of macroeconomic regulation and control of foreign trade, we must safeguard normal procedures in the foreign trade market. Market procedures generally should encompass three areas: (1) Market import/export procedures: All enterprises that participate in foreign trade procurement or import/export operations must obtain the approval of the state departments concerned with foreign trade administration and supervision, and they must be registered with the state departments concerned with industrial and commercial administration and supervision. All enterprises engaged in foreign trade procurement or in import/export business who are not approved and registered by the departments concerned are operating illegally and should be firmly suppressed. (2) Market competition procedures: In market competition we must prevent and avoid unequal interference from factors other than price competition. For example, some regions have taken advantage of state-granted preferential policies to run up domestic procurement prices, while competing to sell abroad at a low price. This is illegal activity that violates market competition procedures. Thus, the

state should formulate a "pricing law" to guide and encourage enterprises to take part in reasonable price competition. (3) Market operating procedures: All enterprises that participate in foreign trade procurement or import/export operations must comply with relevant state agreements on export product quality, trademarks, and contracts, as well as with specific regulations on fixed commodity export prices. Only if the above guidelines are followed can we safeguard normal procedures in the foreign trade market.

2. To exercise the management functions of a system of macroeconomic regulation and control of foreign trade, we must promote a balance of import and export trade and integrate the rate of export growth with the economic benefits to be gained thereby. For a long time now the guiding ideology behind the formulation of China's import/export plan has held that "imports should determine exports." This is one of the major reasons behind China's unilateral pursuit of a rapid growth rate at the expense of economic returns. Thus we should focus heavily on a balanced import/export plan: we should change the planning procedure from one based on "imports determining exports," to one based on "exports determining imports." That is to say, we must focus our efforts on balancing intermediate and long-term import/export trade, but we must also not neglect to balance annual import/export trade. At the same time, in the international market there is only so much elasticity in the market volume of any given commodity. When any kind of export commodity floods the market its export price will spontaneously fall. Consequently, in foreign trade we should pay close attention to integrating the rate of export growth with the economic benefits to be gained thereby.

3. To exercise the management functions of a system of macroeconomic regulation and control of foreign trade, we must guide the flow of foreign capital and optimize both our export industrial mix and our export commodity mix. One of the most important tasks in the management function of a system of macroeconomic regulation and control over foreign trade should be to prudently guide the flow of foreign capital, based on the alignment of development in the nation's export industries, and optimize the export industrial and commodity mixes. Therefore, we should put policies into effect that are slanted toward the export industries upon which the state has focused its support: we should give them preferential treatment in finance, credit, taxation, and so forth. For example, for export industries, in finance we can make suitable increases in the equipment depreciation rate and shorten the depreciation cycle; in credit we can increase the proportion of loans for investment and circulating funds and establish corresponding funds for interest discounts on investment loans; in taxation we can put differential tax rates into effect. In particular we should support highly processed and precision machined exports that produce good economic returns. In this way we can effectively optimize the export industrial and product mixes and thus achieve our goal of expanding

exports to produce more foreign exchange. 4. To exercise the management functions of a system of macroeconomic regulation and control of foreign trade, we must make prudent and effective use of foreign exchange and strengthen foreign exchange credit and foreign debt management. In order to fundamentally change the current chaotic situation that prevails in China's foreign exchange usage, foreign exchange credit, and foreign debt management, the planning commissions and foreign exchange management bureaus of the state, the various provinces, the state-administered municipalities, and the autonomous regions should institute the necessary macroeconomic regulation, control, and guidance over the conditions under which each department, locality, and enterprise uses the foreign exchange it controls, over bank foreign exchange lending, and over the quantity of foreign debt incurred, and ensure that there is an overall balance. The Bank of China and the Ministry of Finance should also strengthen their supervision of foreign exchange lending and foreign debt.

**(III) The Pattern of Goals for a System of Macroeconomic Regulation, Control, and Management of Foreign Trade, and the Sequential Way in Which We Must Achieve Those Goals.**

The pattern of goals for a system of macroeconomic regulation and control of foreign trade should be the changes that the state brings about in market price signals in accordance with the market's various macroeconomic variables, including the amount of currency issued, the amount of currency in circulation, and the overall state of supply and demand in society. By making comprehensive use of various economic, administrative, and legal measures to regulate and control the overall balance of supply and demand in society, we can ensure that foreign trade enterprises and export production enterprises establish an orbit that conforms to market needs, thereby achieving optimum deployment of various key production elements and maximization of economic returns. It should be pointed out that in the foreign trade sphere the above goal is not achieved spontaneously. Rather, the state achieves it by formulating the correct policies concerning finance, currency management, the export industry, trade, and exchange rates, based on various macroeconomic market variables.

At the same time, it should also be noted that achieving this goal for a system of macroeconomic regulation, control, and management of foreign trade cannot be accomplished in one step, but must be done stage by stage: it is a sequential, gradual process of development. In general, the process involves three stages: In the first stage direct methods of regulation and control (this means administrative means) and indirect methods (including various economic levers and legal means) should coexist, with the direct methods predominating. Policy should be slanted toward direct methods and supplemented with indirect methods. In the second stage direct and indirect methods should develop simultaneously and the two should be integrated. In the third

stage indirect and direct methods should coexist, but the indirect methods should be predominant and we should slant our policies in that direction. In China we are now in the midst of a transition from the first stage to the second. If we are ultimately to accomplish the transition from the first stage to the third stage, we must continue to intensify reform in the foreign trade system, particularly in internal enterprise mechanisms, and thereby promote growth and improvement in the enterprise orbit and the market orbit.

**III. The Use and Function of Various Economic Levers in Macroeconomic Regulation and Control of Foreign Trade**

Various economic levers, including exchange rates, credit, taxes, tariffs, price subsidies, and foreign exchange retention, comprise the state's primary indirect economic means of achieving macroeconomic regulation and control of foreign trade. The correct use of these methods is crucial to managing the foreign trade system and other national economic systems, as well as the interrelationships between the inner workings of these systems and the outside environment. It is also crucial to achieving overall coordinated development within the foreign trade system, as well as to handling the interrelationships between each stage of that development.

**(I) The Exchange Rate Lever**

The exchange rate is an extremely important economic lever for regulating and controlling a nation's foreign trade and its economic and technical cooperation with other countries. Its function is chiefly manifested as follows:

1. A downward adjustment or devaluation in a nation's exchange rate helps to encourage and reward exports, while limiting imports. When a country's nominal and actual exchange rates differ, this function becomes even more noticeable. First, from the perspective of exporting, this is manifested as follows: (1) As far as the domestic market is concerned, because the renminbi exchange rate is overestimated, some commodities that produce lower economic returns on the export market remain undeveloped and we can not expand exports. If the renminbi exchange rate is adjusted downward, which means that the procurement price of exported commodities will rise, those commodities that originally produced a lower economic return on the export market can become profitable export commodities. This will stimulate production growth and enable us to develop and use previously idle labor reserves and natural and economic resources, thus supplying ample sources of goods to expand exports and create more foreign exchange. However, it needs to be pointed out that if inflation and continuous price increases are not brought under control, the function of exchange rate adjustment will be offset. (2) As far as the international market is concerned, when prices are relatively stable on the domestic and foreign markets, if the renminbi exchange rate is adjusted downward, this means that the price of Chinese

export commodities will be relatively cheap and become even more competitive on the international market. It also means that the exchange quotation for foreign currency will appreciate and purchasing power will increase, so that more Chinese exports can be purchased using foreign currency with the same face value. Second, from the perspective of importing, devaluation of the renminbi exchange rate indicates an appreciation in the value of foreign currency. On the international market, it will cost more, based on the renminbi exchange quotation, to import the same quantity of commodities. Under conditions of true autonomy for foreign trade enterprises and export production enterprises, where these enterprises accept sole responsibility for profits and losses, their budgets will be kept strictly within bounds and they will be very particular about business accounting. As a result they can restrict unnecessary imports.

2. On a macroeconomic level a downward adjustment in the exchange rate helps to rectify distortions between domestic and foreign prices. On a microeconomic level it strengthens business accounting in foreign trade enterprises and export production enterprises. For example, when the purchasing power parity between the nominal renminbi exchange rate and that actual foreign currency exchange rate is relatively even, enterprise managers and producers can compare the renminbi exchange rate with relative prices on the international market to weigh the advantages and disadvantages of importing and exporting. Thus, they can make scientific management decisions and effectively improve enterprise profits. To this end we must first determine a reasonable renminbi exchange rate level and select the opportune moment to make the adjustment. Only if we have a reasonable renminbi exchange rate can we bring the nominal and actual exchange rates into line with each other and make sure that the exchange rate mirrors international values. This will help us to take advantage of the regulatory and control functions of the exchange rate lever in importing and exporting. The questions are what kind of adjustment opportunity to select and what exchange rate level to decide upon. (1) On the selection of an opportunity to adjust the exchange rate: Generally speaking, adjusting the exchange rate is subject to two conditions: First, overall economic development must be well coordinated. The exchange rate adjustment must not touch off currency and price inflation and allow the economy to get out of control. Second, the economic orbit must be relatively sound; for instance, the nation must have a fairly powerful capacity for macroeconomic control and enterprises must have a relatively strong self-restraint mechanism. If the exchange rate is adjusted in the absence of the above two factors its effect on importing and exporting will not produce the anticipated results. (2) On the scale of adjustment in the exchange rate level: Generally speaking the exchange rate should be adjusted at the opportune moment based on supply and demand on the foreign currency markets and the law of value. The so-called "creeping exchange rate," wherein people are not conscious of the change, is a normal occurrence.

But if there is a wide gap between the nominal and actual exchange rates this method of fine tuning is clearly not suitable, nor can it have a regulatory effect on the import/export trade. Second, we should gradually expand and open up the foreign currency market. It should be noted that foreign exchange markets and commodity markets alike require a gradual process of growth and development. In China the shortage of foreign currency is certainly not a short-term phenomenon. Consequently, it is absolutely essential for the state to gradually develop the foreign currency market and institute adjustments that compensate for the use of foreign exchange. As for the foreign exchange that foreign trade enterprises and export production enterprises retain, we should set up free trade at a price settled by consensus between supply and demand. In this way we can to a certain extent make up for some of the price distortion created by the two separate pricing systems—foreign and domestic—and also stimulate and expand initiative and creativity in exporting.

## (II) The Credit Lever

Credit is an economic lever with which the state can regulate and control foreign trade activity by adjusting the interest rate at which banks extend credit. Among the Western developed nations who take full advantage of it, this use of the credit lever to regulate and control import/export activity produces extremely evident results. However, in China, at this stage foreign trade enterprises and export production enterprises have not truly and completely achieved autonomy or taken sole responsibility for their profits and losses, and there is tremendous pressure on the state to create more foreign exchange through exporting. Moreover, foreign trade enterprises have very few freely circulating funds and must rely chiefly on bank loans for circulating funds. For these reasons adjustments in bank interest rates do not have much binding force on enterprise funds. However, undoubtedly, as we intensify restructuring in the foreign trade system and as foreign trade enterprises and export production enterprises become more autonomous and we achieve enterprise-based management, the level of bank lending rates will inevitably begin to have a greater binding force on enterprise operations.

Instituting preferential export credit policies is a practice now widely adopted among developed and developing nations around the world to encourage exports. Because the "General Agreement on Tariffs and Trade" strictly limits direct export subsidies, the adoption of preferential credit policies is a major way of sidestepping these restrictions. Consequently, relative to a nation's economic clout, adopting the essential low interest rate or the use of discount credit can be crucial for encouraging and rewarding export expansion. In China, instituting preferential export credit could resolve the problems foreign trade enterprises and export production enterprises face due to insufficient freely circulating funds, thereby encouraging them to expand the scope of their export business. It could also effectively spur lower production costs for these enterprises and effectively



resolve the funding difficulties that export sellers and buyers face due to excessively large import and export sums and delayed payments. Thus it will help to promote and expand exports.

To take further advantage of the role that the credit lever plays in macroeconomic regulation and control of foreign trade, we should adopt the following measures: (1) In order to encourage expanded exporting, we should establish a national import/export bank to extend credit to export sellers. Many nations around the world have installed import/export banks. To encourage and expand exports, they extend to exporting enterprises preferential credit rates, including low-interest and discount loans, various kinds of risk protection, and so forth. In China, no national import/export bank has yet been established, and thus it is urgent that we do so at the earliest possible time in order to develop and expand foreign trade. (2) To spur and enlarge exports we should gradually develop and issue buyers' credit. Because of the shortage of foreign exchange here it will be hard to develop this kind of credit business in the near future. However, from a long-term perspective, as China's export trade continues to grow and the export commodity mix evolves, as exports of manufactured goods increase—particularly exports of electromechanical instruments that have a high added value—it will clearly become very important to make good use of the crucial economic lever of export buyers' credit.

### (III) The Tax Lever

Taxation is one means by which the state takes part in distributing and redistributing national income. The level of tax burden on a foreign trade or export production enterprise affects not only the enterprise's own profits and losses, but also the competitiveness of Chinese export commodities on the international market.

It is an international trade practice to use tax drawbacks to encourage exports and create more foreign exchange. Many Western developed nations and newly industrialized countries and regions employ this method. In China the use of export tax drawbacks plays a clear role in helping to improve the export commodity mix, increase the competitive strengths of our export commodities, perfect enterprise management, and extend exports to earn more foreign exchange.

To make better use of export tax drawbacks, the value added tax paid at each stage of the process on manufactured goods should be completely refunded when that product is exported. On other commodities that do not carry a value added tax, we should calculate the average value of accumulated indirect taxes on each exported commodity and refund the taxes based on the comprehensive tax drawback rate determined for each category of commodities. As for export commodities purchased by foreign trade enterprises, because the accumulated indirect taxes have already been included in the selling price, export tax drawbacks should be refunded entirely to the foreign trade enterprise. In the case of export

products for which the foreign trade enterprise acts only as export agent, the export tax drawback should be refunded entirely to the enterprise that produced the goods.

### (IV) The Tariff Lever

Tariffs are taxes collected on imports and exports as they pass a nation's borders. Generally speaking, tariff rates should be applied based on a country's macroeconomic interests and its need to have preferential treatment policies for certain industries.

The tariff lever is clearly useful for regulating and controlling exports. From the perspective of importing, the level of tariff rates helps in implementing a nation's preferential policies. For example, low tariffs or tariff exemptions should be applied to advanced technologies and key equipment urgently needed for major state construction projects, as well as to raw materials for which there are domestic shortages. As for imports that affect the development of China's national industries or import substitution, as well as those nonessential imports that adversely affect improvement in the industrial and product mixes in China's export industry, these should be restricted by raising tariff rates. From the perspective of exporting, those plentiful natural resources and commodities for which there is a surplus in the domestic market should be exempted from export tariffs in order to encourage greater exporting. By contrast, to protect domestic resources and prevent the loss of valuable goods, those commodities that produce huge export profits and for which there is domestic price-cutting competition on exporting should be restricted by the use of export tariffs.

### (V) Price Subsidies

Price subsidization is the use of national fiscal strength to subsidize export-producing enterprises due to price differences produced by domestic and overseas pricing systems. After tariff drawbacks are implemented some commodities are still unable to produce an export profit, so the state must check and approve export costs and for a limited time may grant a price subsidy to encourage export growth.

Price subsidization is actually a common international practice. In order to protect producers and improve the competitive strengths of certain kinds of products on the international market, the United States applies "price supports" to agricultural exports and Japan and Western Europe give various subsidies to producers of steel exports. In China the role of price subsidies in macroeconomic regulation and control of foreign trade appears primarily in the following ways: it helps to encourage expansion in the export of those electromechanical instruments that have an active or potential advantage on the market; it is useful in readjusting the export industrial mix to make it really first-class; and it encourages the development of new products, which constantly improves the export product mix.



It should be pointed out that the object of price subsidies are the producers, so we must guard against direct subsidization of export commodities, which would violate international conventions and produce reprisals in the form of "antidumping duties" from importing countries. Price subsidization should take into consideration changes in enterprise profits. Now that we are opening the market to foreign exchange regulation, as some export production enterprises—by regulating foreign exchange—become able to take sole responsibility for their profits and losses, these subsidization measures should be discontinued.

#### (VI) Foreign Exchange Retention

Foreign exchange retention is an export reward measure the state applies to various foreign trade and export production enterprises to encourage export expansion. Export rewards are widely adopted throughout the world to stimulate exports. We began the foreign exchange retention program in China in 1984. As a general perspective, this kind of export reward system plays a positive, incentive role to encourage foreign trade and export production enterprises to import advanced technology and equipment, remodel outdated enterprises, improve product quality, and develop exports. However, a foreign exchange retention system has both advantages and disadvantages. The advantages are as follows: Local governments have a share in retained foreign exchange and this helps encourage them to stress the development of export commodity production and the expansion of exports to produce more foreign exchange. Moreover, when enterprises can retain foreign exchange they can use it to import advanced technology and key equipment and improve the export industrial mix. This helps to raise the quality of export commodities and their competitiveness on the international market, thus invigorating enterprises. The disadvantages are as follows: because the proportion of foreign exchange retained is not uniform, but is regionally slanted, an environment of uneven competition develops between regions, causing procedural chaos. This is the primary reason for domestic procurement at inflated prices and price-slashing competition to sell abroad. Moreover, because the localities and enterprises have their own retained foreign exchange, and rather a lot of it, it is easy for state macroeconomic management of foreign exchange to lose control. Accordingly, some critical, basic state industries and advanced technological projects cannot develop because they lack foreign exchange. Finally, enterprises may lose sight of the relative interests and specialized returns that accrue from their own development, and it is easy for them to fall into undesirable practices such as blind development and duplicative importing.

In order to conquer the disadvantages caused by the regional slant in the foreign exchange retention system and make the best use of its rewards, we should actively promote a policy slanted toward export industries. That is, we should determine the different ratios of foreign

exchange retention based on different industries, enterprises, and commodities rather than on regions. This will create optimum conditions for equal development between regions.

From the foregoing analysis we can see that the different economic levers have dissimilar roles and applications in macroeconomic regulation and control of foreign trade. However, all these economic levers must be used to contribute to the strategic goal of developing and expanding exports, and they must serve the function of "encouraging exports while limiting imports." We must particularly stress the fact that because each kind of economic lever is subordinated to various different sectors of economic administration and management, it is absolutely essential that we enhance cooperation and overall coordination among economic sectors and ensure that the various economic levers are used to their best advantage to safeguard the macroeconomic benefits of foreign trade.

#### Improved Supervision Needed Over Compensation Trade

90CE0323A Beijing GUOJI MAOYI WENTI  
[INTERNATIONAL TRADE JOURNAL] in Chinese  
No 5, 30 May 90 pp 58, 61

[Article by Li Yaxin (2621 0068 2450), Li Yan (2621 1484), and Chen Haomeng (7115 1170 1322): "Management of Compensation Trade Urgently Awaits Strengthening"]

[Text] Compensation trade has become one of the important forms of China's use of foreign capital, and has become an important way for enterprises "to use stairs to go up one storey" and "to use chickens to get eggs." In mitigating the contradiction between economic development and insufficient funds, in importing foreign advanced technologies, and in developing international markets, it has played a positive role. However, in the management of compensation trade there also exist some problems urgently awaiting solution.

First, there are different understandings of the connotation of foreign compensation trade, leading to the appearance of a diversity of forms. It is generally thought that a fairly standard compensation trade rests on the foundation of credit. Our side does not with ready foreign exchange purchase foreign technologies and equipment, but with the products produced by the purchased equipment by stages repays the costs of the technologies and equipment. In actual work the understandings of the connotation of compensation trade are different, and there have appeared a diversity of forms and changes in disguised form of the objectives: There is less repayment by resale of products and more repayment by foreign exchange regained by export; there is more repayment with the enterprises' comprehensive products; there is less bilateral compensation and there is more "triangular" multilateral compensation; and some people neither use foreign exchange to import advanced technologies and equipment, nor resell their products or

earn foreign exchange by export; but, in the form of compensation trade, they bear a debt in foreign exchange abroad. The complex, confused state of affairs in compensation trade greatly increases the difficulty in managing it.

Second, compensation trade has become an "out-of-control point" in foreign debt management. Compensation trade contracts only provide that "the foreign party's amount of resold products each period not be lower than that provided in the article on the cost of the consumption equipment it needs, and even less may be regarded as management's scope for the examination and approval of foreign debts." However, from a look at the actual situation, we see that 80 percent of the compensation trade projects are ones in which foreign exchange earned from export is used to repay the cost of equipment. Essentially, this becomes a direct debt, and for management there is not set of fairly strict methods as there is in other forms of debt. Only after its formation in the foreign debt field is it monitored by passive statistics. Under this loose management, some localities and departments, proceeding from their partial interests, borrow money from abroad with the aid of compensation trade in a disguised form, and evade foreign debt management, becoming an "out-of-control point" in foreign debt management.

Third, in the form of compensation trade there is a transfer of ready foreign exchange, changing it into renminbi funds inside China, and forming a double inflation of the scale of foreign debt and the renminbi put into circulation. In the study of some compensation trade projects, we see that the objective is not to import foreign advanced technologies and equipment, but rather is to solve the problem of insufficient renminbi funds, evade the domestic policy of retrenchment, and provide a self-cure for "investment starvation." For example, in a certain city in 1988 for six compensation trade projects, only \$6.3 million in foreign capital were used, of which 85 percent was allocated to enterprises after transferred ready foreign exchange was converted by foreign trade enterprises and became Renminbi at a conversion rate of 4.5 yuan to \$1. A certain city restricted a factory to having its self-manufactured equipment sold by a foreign trade enterprise to a foreign businessman at a cost of \$700,000, obtaining 3.045 million yuan in renminbi. Afterward the foreign businessman put this equipment into that factory in the form of compensation trade. In reality, compensation trade has become a way for projects to get funds in renminbi.

Fourth, organizations stationed abroad, with foreign loans, engage in compensation trade with enterprises in China, but their compensation capacity is fairly weak. Most of the organizations stationed abroad borrow money abroad, and afterward, by means of compensation trade, put into China the transferred foreign loans, thereby only playing the role of being a bridge and intermediary for foreign loans. Again, the scope for organizations stationed abroad to sell abroad is narrow, and their capability for opening up international markets

is weak; the rate of honoring resale contracts is very low; and there have appeared difficulties for Chinese enterprises to compensate on schedule, and so they shoulder a heavy burden of debt.

Fifth, in compensation trade, examination and approval is out of joint with management, economic results are not good, and the jurisdiction for examination and approval of compensation trade projects has been transferred to the lower level too widely, making difficulties for the macromanagement of compensation trade projects. Some compensation trade depends on exploiting loopholes in policies to get results, and cannot go into production on schedule, even causing equipment to remain idle, with foreign capital utilization results being low and economic results being poor. The management of compensation trade after a project is started is even more of a weak link, and there is no department that provides a tracking management service for compensation trade in the entire process from going into production to reselling products.

To promote the healthy development of compensation trade, we suggest:

First, with regard to the situation in which, because China's money markets are tight, renminbi funds are insufficient, and there is a turn toward incurring foreign debts, the transfer in the form of compensation trade of funds into ready foreign exchange and then their conversion into renminbi funds should be strictly prohibited. Prevent the appearance of the double inflation of holding foreign debts and putting renminbi into circulation, which offsets the results of improvement and rectification.

Second, the examination and approval and the management jurisdiction of compensation trade projects should be appropriately centralized and contracted, and put in a functional department. The total scale of compensation trade must be put in the total scale of foreign debt, and strict management of indices practiced, thoroughly switching from a speed-development type to a results-growth type.

Third, there must be a strict investigation of the compensation trade engaged in by organizations stationed abroad. There certainly must be fixed product resale contracts, making clear the resale responsibility and the resale proportion, preventing organizations stationed abroad from transferring to China foreign loans and investment risks.

**Promotion of Dual Contract Export Agent System**  
90CE0326A Shanghai JIEFANG RIBAO in Chinese  
4 Jun 90 p 6

[Article by Zhu Meihua (2612 5019 5478): "On Promoting Dual Contract Export Agent System"]

[Text] The trend in foreign trade reform is the export agent system. Since 1985, Shanghai has been experimenting with the export agent system at four enterprises: the Jiefang Cotton Spinning Mill, Micro Bearing Plant, Shanghai No. 4 Cotton Mill, and Yuejin Electrical Machinery Plant. In addition, it introduced the industry and trade dual contract export system across the board in the municipal textile bureau in April last year. The first results have been quite remarkable. Despite raw materials shortages all round, a steep rise in the amount of foreign exchange used to pay for imports, and sharply increasing losses, the municipal textile bureau exceeded its foreign exchange earning contract target by 10 percent last year, to hit a new high of \$1.12 billion.

In accordance with Mayor Zhu Rongji's [2612 2827 1015] instruction that the export agent system achieve a breakthrough, we have reviewed the experience of the textile bureau in the implementation of the dual contract export agent system and put forward for reference some policy proposals with the major current problems in mind in order to intensify contract system reform and further popularize the contract system.

In the current era of improving the economic environment, rectifying the economic order, and intensifying reform, how to further consolidate and improve the export agent system is an important aspect of intensifying foreign trade reform. We believe it must be handled in conjunction with the intensification of economic structural reform. Industry, trade, and all government departments concerned must work together—helping one another since they are in the same boat—to resolve satisfactorily some of the more urgent issues in the export agent system.

#### **With Banks Taking the Lead, Industry and Trade Should Join in a Common Endeavor To End the Shortage of Working Funds.**

Fund shortages are a striking contradiction in the normal operation of the agent system. Since the tight money policy will remain in place at present, we propose that we survive the funding crisis by depending mainly on banks, with cooperation between industry and commerce. Specifically, we can take these measures: First, we can address the crisis through the banks. The industrial and commercial bank is the major source of credit funds for production enterprises, while the Bank of China is the main source of foreign exchange funds for production enterprises. Banks may provide loans at preferential interest rates to solve the problem of industry falling behind in payments to trade and vice versa and to meet the need for foreign exchange. Banks may also deploy a variety of credit instruments and methods of raising short-term funds to meet the production enterprise's short-term cash flow needs. For instance, they may furnish guaranteed loans and export loans or help industry open up fund-raising channels including bill

discounting, inter-bank borrowing and lending of short-term funds, and social fund-raising. It is also proposed that we set up a foreign fund bank to use foreign capital to meet the working fund needs of production enterprises and an export-import specialized bank to give funding support to enterprises that want to export. Second, the foreign trade sector should transfer to industry as soon as possible funds used to support the export of products. At the same time, foreign trade companies should settle accounts without delay to meet the need of the agents in order to speed up the fund circulation of enterprises. A variety of means should be used to raise some renminbi to pay off loans in arrears to industry. Third, production enterprises responsible for their own profits and losses should establish a foreign exchange advance allocation system promptly to ease the shortage of funds. Fourth, production enterprises may raise funds on their own to meet their urgent needs.

#### **Industry and Trade Discharge the Function of Export Regulation Properly**

With the procurement system giving way to the agent system in foreign trade, there has been a change in the objects of the self-responsibility for profits and losses. It is industry, not foreign trade, which is now directly responsible for profits and losses in export. However, the fact that individual enterprises do not perform a complete range of functions has complicated the successful implementation of the agent system. How to solve this problem? In our opinion, we should abide by the principle of exploiting the strengths of both industry and trade, operate in accordance with economic laws, and let trade and industry take up the function of export regulation. We must create conditions, establish a planning and coordination body to bring together industry and trade, bring out the strengths of the trade, and begin comprehensive balancing work. The United Knitting Company, for instance, has established an external trade department to serve enterprises. After it receives an order from the foreign trade sector, it offers one-stop management, coordinating varieties, regions, profits and losses, and raw material work, to the satisfaction of both trade and industry. As for industries with a lesser coordinating ability, problems are solved through consultation between industry and trade. For example, collecting raw materials is essentially the job of production enterprises. Because of its experience in overseas marketing, the foreign trade sector should be responsible for overseas marketing and opening up the international market. But in order to make sure that the products are what the market needs, we must also allow the direct producer of products—the industrial enterprise—to understand the situation in the international market and let it take part in the negotiation, pricing, and contract signing procedures and make foreign marketing a more open process. In addition to the present regular industry-trade coordinating meeting, the two sides—industry and trade—may name people to set up specialized work groups to coordinate matters like the cost of earning foreign exchange, quotas, contracts, funds, and statistics.

### **Secure Foreign Exchange To Import Raw Materials; Encourage Enterprises To Use Imports To Develop Exports**

Shanghai is a city dominated by processing industries. As state-allocated raw materials decrease daily, processing with imported materials becomes proportionally more important. Right now imported materials account for a large share and enterprises are short of working foreign exchange. To put an end to this situation, it is suggested that we begin by making sure that the textile industry, which has introduced an agent system, has working foreign exchange to pay for imported raw materials. With working foreign exchange, production enterprises can import so that it can export. The sources of working foreign exchange can come from the municipal government's foreign exchange earned from imports. If and when a foreign capital bank is set up in the future, it can be a second source of working foreign exchange.

### **Establish a Foreign Exchange Income and Expenditure Allocation Center To Ensure the Completion of Tasks of Spending and Repaying Foreign Exchange.**

As far as the foreign exchange management of the textile industry is concerned, we must first take care to intensify macroeconomic control. Next we must sort out these three areas: sources of foreign exchange, the import of raw materials, and the deduction of foreign exchange to pay back loans. Accordingly, we propose that the municipal textile bureau be responsible for macroeconomic regulation and management and put foreign exchange under centralized borrowing and centralized repayment. Furthermore, there should be a foreign exchange income and expenditure allocation center to set up foreign exchange accounts for each industry. The tasks of the center will be: 1) pool foreign exchange derived from exports and retained by the enterprise into the trade accounts; 2) deduct the foreign exchange used by the enterprise to import raw materials; and 3) the center may rationally allocate foreign exchange among upstream and downstream enterprises as well as the bureau in accordance with bureau regulations. When the conditions are ripe, enterprises may settle accounts among themselves in a foreign currency. The account settlement center should determine how much net foreign exchange (that is, foreign exchange minus foreign exchange spent on importing raw materials, foreign exchange reverting to upstream enterprises, and the small amount of foreign exchange centralized in the bureau) should go to the various direct and indirect export enterprises to be disposed of as they see fit.

### **Quota Management Should Help Mobilize the Initiative of Production Enterprises**

After an agent system is introduced, quota management should be adjusted accordingly. To help mobilize the initiative of production enterprises, the department in charge of quota management should regularly work out problems that arise in the use of quotas. In addition, there should be policy coordination. First, along with

foreign exchange-earning targets and foreign-exchange receiving targets, quota targets should be part of the targets of dual contracting so that production enterprises enjoy the quotas they had before the agent system is introduced, to be increased in the future as the amount of foreign exchange earned increases and as the quotas allocated to Shanghai by the Ministry of Foreign Economic Relations and Trade increase. Second, quota distribution should follow the principle of survival of the fittest. Instead of distributing quotas mechanically based on the base figures for the preceding year, we should favor those products that earn a lot of foreign exchange and show promise on the international marketplace. That would encourage the export of strong foreign-exchange earners and cut down on export losses. It will also encourage the export of new products with a high foreign exchange earning rate, especially the export of products made with imported technology. In the process, shoddy exports will be weeded out. Third, competitive mechanisms should be introduced into quota management through quota bidding.

### **Combine Internal and External Circulation and Secure Raw Materials Through Multiple Channels**

After the agent system is introduced, we may combine internal circulation with external circulation and employ a variety of channels to secure raw materials for production enterprises that make exports. One approach is "external circulation," which means looking toward the international market for raw materials and exporting them after processing. But the import of raw materials raises three issues that need to be addressed on a policy level. First, the foreign exchange and renminbi funds needed to pay for imported raw materials should be made available in a coordinated way. Second, raw materials should be imported in a centralized manner to avoid gaps in supply. Third, take advantage of low prices on the international marketplace and import raw materials at the opportune moment. The other approach is "internal circulation," which means creating an internal raw material circulation system bringing together agriculture, science, and sideline industry. Tap the potential of existing raw material bases and establish new ones. Expand exports and earn more foreign exchange. Then use such foreign exchange to foster scientific research, develop new raw materials, and establish good-quality raw material bases so that the supply of raw materials can increase gradually and steadily. Meanwhile, to encourage enterprises to strive to secure raw materials and semi-finished products from other places in the nation, and cut back on imported raw materials, it is proposed that similar incentive measures be taken in the distribution of foreign exchange, such as foreign exchange payment contracting.

### **Take Into Consideration the Interests of Both Industry and Trade When Determining Trademark Ownership**

According to international practices, trademarks are patents in the production arena. In China, however, the creation of trademarks results from the joint efforts of

both industry and trade; neither could do without the other. After the agent system is created, therefore, we should take into consideration the interests of both industry and trade in determining trademark ownership so that the result will be acceptable to both parties. Specifically, one approach is to allow the production enterprise to use the trademark in question indefinitely for a fee, with the ownership of the trademark residing in the foreign trade enterprise. In other words, the production enterprise pays the foreign trade enterprise each month a set percentage of the foreign exchange derived from the export of the commodity in question as compensation for the use of the trademark. In the second approach, the production enterprise purchases the trademark from the foreign trade enterprise. In other words, the production enterprise pays a lump sum to the foreign trade enterprise to compensate the latter for the money it has spent to register and publicize the trademark. As for new export products developed by the production enterprise after the introduction of the agent system, they should be registered overseas without delay to secure trademark rights.

**In the Case of Export Commodities Outside the Contracting Targets, Production Enterprises Should Be Free To Choose a Foreign Trade Company as Agent.**

The present dual contract export agent system can be described as a transition from the procurement system to a full-fledged agent system. As economic structural reform is further intensified and more coordinated measures are introduced, it will be replaced gradually by a full-fledged agent system. Right now, however, our job is to create conditions for the transition. It is proposed that in the case of export commodities outside the contract target and export commodities which designated foreign trade companies are unwilling to handle, the production enterprise should be free to select a suitable foreign trade enterprise with a good service attitude to act as agent. This way we will promote exports and encourage the foreign trade companies to improve management and operations, at the same time laying the groundwork for the transition.

**Zhejiang Improves Infrastructure To Enhance Investment Climate**

*90CE0338A Hangzhou ZHEJIANG RIBAO in Chinese  
25 Jun 90 p 1*

[Article in column entitled "Speed Up Opening Up and Further Develop the Externally-Oriented Economy," by reporter Ren Ruizhen (0117 3843 3791): "Zhejiang's Investment Environment Shapes Up To Attract Foreign and Taiwanese Investors"]

[Text] In mid-June, successful test-flights at the new airports in Ningbo and Wenzhou, cities at Zhejiang's main eastern and southern gates, marked another new improvement in Zhejiang's investment environment. In recent years, Zhejiang has devoted great efforts to the construction and perfection of its infrastructure in order

to create a better investment environment to attract foreign and Taiwanese businesses.

As Zhejiang opens up to the outside world, its governments at all levels are giving top priority to improving the investment environment in order to attract foreign and Taiwanese investors. It has concentrated its financial and material resources on strengthening the infrastructure. Since 1979, Zhejiang has invested as much as 8.4 billion yuan in the power, transportation, post, and telecommunication systems. They account for 33.7 percent of the province's total capital construction investment for the same period. Over a five-year period, Wenzhou City has invested a total of 1.2 billion yuan in its infrastructure. More than half of the money has been expended by the localities under very tight financial conditions, and they have gone to great lengths to raise their own funds. Each day, the improved infrastructure makes Zhejiang's "tangible" conditions more attractive to foreign investors. It is now equipped to open its door to investors from all over the world.

**Communications:** Zhejiang has developed a comprehensive transportation system with complete railway, highway, waterway, and aviation systems. With respect to port facilities, Zhejiang has constructed 54 coastal harbors equipped with 480 berths, 34 of which can accommodate ships 3,000-7,000 tons and 14 are 10,000-ton deep-water berths. The ports of Ningbo, Wenzhou, Zhoushan, and Haimen are completely open to foreign ships; there are no foreign ship agencies. Jiaying's 10,000-ton-class Zhapu Harbor is under construction. A network of coastal ports centering in eastern China's largest harbor, Beihai Harbor in Ningbo, and consists of harbors that can accommodate ships of all sizes has been created. Over a 10-year period, the main coastal ports have increased their cargo handling capacity by more than 4-fold. With respect to aviation, Zhejiang has opened 19 civilian air routes. There are direct flights linking Hangzhou to Beijing, Guangzhou, Shanghai, Guilin, and Hong Kong. When the Ningbo and Wenzhou airports go into service and other local airports gradually open up, Zhejiang will have a local aviation network with Hangzhou at the hub and Ningbo and Wenzhou as the mainstay. With respect to railway, within the province, Zhejiang has 1,093 kilometers of tracks already in service. The Shanghai-Hangzhou and Zhejiang-Jiangxi trunklines connect to the nation's railroad network. The Shanghai-Hangzhou and Zhejiang-Jiangxi multiple tracks and the Qianjiang Number 2 Bridge are under intense construction. The Xiaoshan-Ningbo track is being revamped, and the railway from Hangzhou to Anhui's Xucheng will be open to traffic next year. A railroad linking Jinhua and Wenzhou is being planned. With respect to highway, six state routes and 69 province-level main lines crisscross the entire province, forming a highway network that centers in Hangzhou and links all of the province's cities and counties and more than 85 percent of the villages (townships.) The revamping of the grade two highway between Hangzhou and Shanghai and between Hangzhou and Huzhou is



complete, and repair of the Hangzhou-Ningbo freeway has been approved by the state.

**Power.** Zhejiang's power network is an important part of east China's power network. So far, the province has developed a modern network with extrahigh voltage, large generator sets, and high parameters. Besides the existing large hydroelectric and thermal power plants, the Wenzhou Power Plant, Zhenhai Power Plant, Changxing Power Plant, and Taizhou Power Plant, have been added or expanded in recent years. China's first nuclear power plant, the Qinshan Nuclear Power Plant, and the first phase of Ningbo's 600,000-kilowatt Beilun Power Plant project will be finished and go into service soon. They will be accompanied by a 550,000-volt extra-high voltage and some 220,000-volt transmission lines. It is estimated that Zhejiang's power generator sets will have 1.27 million kilowatt capacity. This will greatly strengthen the province's power network and increase the reliability of her power supply.

**Post and telecommunications.** Zhejiang invested more in communication installations in the last couple of years than all the years since liberation put together. Hangzhou, Ningbo, Wenzhou and four other cities are equipped with program-controlled exchange and direct-dial international lines and other telecommunication facilities capable of calling 182 nations and regions worldwide direct. Province-wide, 69 cities and counties have automatic telephones; 59 of those are included in the nation's automatic long-distance network and 38

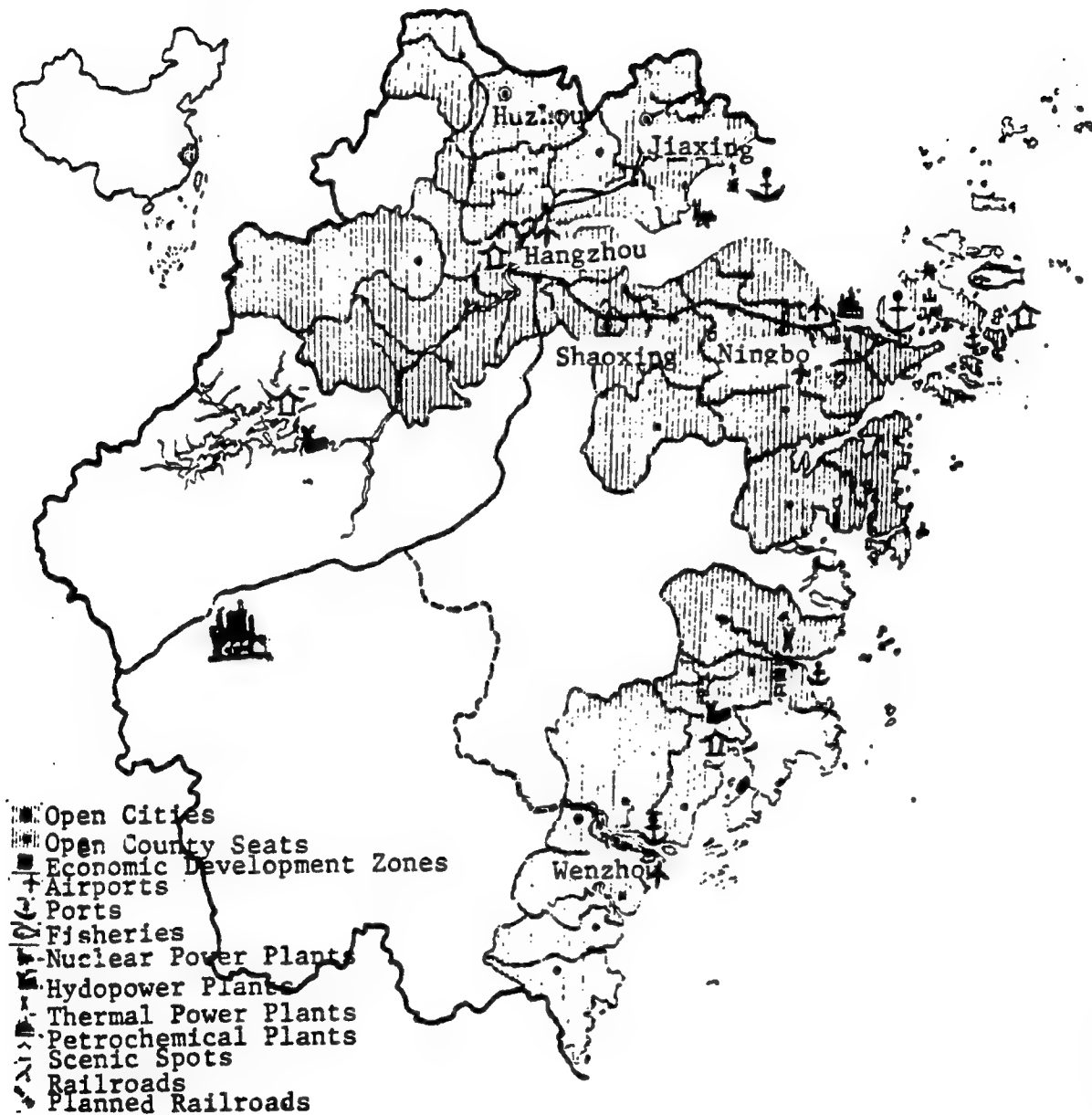
have opened up their teletype services. Cities and counties throughout the province are offering voice messaging and domestic fax services. Hangzhou, Ningbo, Wenzhou and other cities and counties are offering international and domestic express mail services.

**Tourism and hotels.** To date, Zhejiang has 53 hotels and guesthouses that serve foreign guests. There are more than 6,000 standard hotel rooms with 12,000 beds. Basically the province is capable of meeting the needs of businessmen and tourists of every class.

While improving the "tangible" conditions, the localities have also strived to improve the "intangible" conditions, making them elements to be reckoned with when attracting foreign investments. While governments at all levels have implemented diligently the preferential policies the State Council has handed down on opening up to the outside world, they have also formulated their own preferential policies on taxation, profit retention percentages, banking, credit, labor and personnel matters to suit local conditions. Some have even passed laws in the People's Congress for protection. Meanwhile, governments at all levels have also strengthened and concentrated their leadership effort and have set up customs, cargo inspection, banking and other services and facilities in many cities and counties. Many open cities and regions are trying hard to put foreign trade matters under "one organization, one window, and one stamp," striving to improve work efficiency and offer better service. [See graphic next page]



ZHEJIANG'S INVESTMENT CLIMATE



### Zhejiang's Foreign-invested Enterprises Enjoy Steady Growth

90CE0338C Hangzhou ZHEJIANG RIBAO in Chinese  
28 Jun 90 p 1

[Article in column entitled "Pick Up the Pace of Opening Up to the Outside World and Further Develop the Externally Oriented Economy," by Du Xuanping (2629 1357 1627) et al.: "Foreign Investments Are Pointing in the Right Direction"; "'Grafted' Projects Are Showing Profit: Zhejiang's 'Three Kinds of Foreign-invested Enterprises' Achieve Steady Growth—Last Year, Their Exports Earned \$110 Million, Which Made Them Zhejiang's Fresh Foreign Exchange-earning Troop"]

[Text] Zhejiang's effort to absorb and utilize foreign capital forged ahead steadily, and by the end of May, the province has approved 560 foreign-invested enterprises [FIE's] worth \$424 million in agreed investments; \$153 million has already been absorbed. The source of foreign capital has slowly spread from Southeast Asia to more than 20 nations and regions in Western Europe and North America. The investments are spread out mainly in the light, textile, chemical, electronic instrument, machinery, and construction materials industries. In 1989, 96 FIE's exported \$110 million's worth of goods, and between January and May of this year, the province's exports have earned more than \$39 million, increasing by more than three times the amount of foreign exchange earned in the same period last year. The FIE's have become Zhejiang's fresh foreign exchange-earning troop.

Utilizing the existing plants and equipment of old enterprises and transforming them by "grafting" them onto foreign capital brought into the province to upgrade the products and capture the international market and earn more foreign exchange are the characteristics of Zhejiang's FIE's. More than 80 percent of Ningbo's FIE's and all of her secondary and light industrial FIE's, which account for 23 percent of Zhejiang's FIE's total output value, got started using this "graft" method. Its advantages are that it shortens the construction period, saves on investment, gets production started sooner, and generates results faster. Ningbo's No. 3 Radio Plant used to produce old-fashioned record players and plastic records which have long gone out of style. Adopting the "graft" method, the Jiayin Audiovisual Company Ltd. was formed jointly with a foreign business to produce audio tapes. It has upgraded its products and has been making a profit every year. Shaoxing's Fenghuang Clothing Company, Ltd., Wenzhou's Hengxing Leather Goods Company, Ltd., and Hangzhou's Huali Clothing Company Ltd., and other "grafted" secondary and light industrial FIE's have all come up with advanced export goods to earn foreign exchange within a few short months. The secondary and light industrial system has become the industry that has attracted the most imported foreign capital and has "grafted" and transformed most projects in Zhejiang. Their exports account

for more than one-half of the foreign exchange earned by all FIE's in the province. Because the investment generates quick return, many foreign businesses have been putting in additional capital in the enterprises. In 1989, 12 FIE's put additional capital in their businesses. For example, being highly profitable, Hangzhou's Safety Glass Company, Ltd. has invested additional capital three times over the last two years. Its total investment has grown from the original \$4.50 million to \$11.86 million today. It has added more advanced equipment and has increased the company's staying power. Its safety glass for automobiles is selling well at home and abroad.

Many FIE's have given play to their own superiority and have borrowed foreign facilities to increase their export and earn more foreign exchange. The Sino-foreign joint venture, Zhouyang Fishery Joint Company, utilizes overseas commercial network and sales channels to increase sales. As a result, the company's output has increased significantly. It used to export only frozen fish but has now expanded to refrigerated fresh fish and has moved from fishing to aquatic product breeding and even produce and export fish nets to meet the international market's many needs. Its 1989 export surpassed the \$6 million mark. Between January and May of this year, it has earned \$3 million, more than what it brought in last year during the same period. Yuhang's Hangxi Silk Print and Dye Company acquired some timely overseas market information through different channels and promptly adjusted its product-mix. It has increased export of its printed and dyed silk and silk garment and has been fairly profitable. Its foreign exchange earning per meter of silk has risen from \$4.4 in 1988 to \$6.1 today.

In recent years, foreign investments in Zhejiang have been heading in a good direction; the projects continue to be of high quality. Of the projects already approved, more than 94 percent are production-oriented. More and more enterprises are using advanced technologies and are producing export goods. The province is moving slowly toward more advanced, precise, and sophisticated mainstay projects and is playing a role in perfecting one project at a time and bringing along one industry after another. Zhejiang Pacific Chemical, Ltd., a joint venture between the Zhejiang Chemical Plant and the United States' Dow Chemical is Zhejiang's largest advanced technology project to date. It is capable of producing 20,000 tons of cyclooxypropane, 20,000 tons of polyether, and 5,000 tons of glycerine. Using Dow Chemical's advanced technologies, this plant's product quality, ability to conserve raw materials, arts and crafts, as well as technological standards, extent of automation, and its liquid waste treatment method, are superior to similar production lines already brought into this country. It is helping to spur the development of Zhejiang's basic chemical industry.

### Shanghai Continues To Receive Foreign Funds

OW0408211090 Beijing XINHUA in English  
1405 GMT 4 Aug 90

[Text] Shanghai, August 4 (XINHUA)—Shanghai, China's largest economic center, signed 21 contracts with overseas investors in July, involving a total of 34.64 million U.S. dollars. This was the highest figure for foreign funds in the first half of this year.

Statistics show that the number of foreign-funded enterprises given approval by Shanghai in July was 1.5 times more than in the same month last year, and the direct investment came to nearly three times the figure recorded in July 1989.

The investors mainly came from Hong Kong, Japan, the United States, Taiwan, Singapore, Switzerland, Britain and Federal Germany. Now, Taiwan investment has reached 20 million U.S. dollars. A total of 807 investment contracts had been signed with 22 foreign countries by the end of July. Total investment reached 2.6 billion U.S. dollars.

### Internal Management Deemed Greatest Obstacle for Joint Ventures

90P30071 Hong Kong CHING-CHI TAO-PAO  
[ECONOMIC REPORTER] in Chinese No 31,  
6 Aug 90 p 18

[Summary] A three-year Sino-German joint study has again confirmed the view prevalent in international management circles that internal management rather than the external business climate is the major obstacle facing joint ventures.

To remedy the situation, experts recommend that management of joint ventures be conducted independently, that managerial authority not be linked to the possession of ownership interests, and that the general manager and deputy general manager be appointed from within the board of directors.

These were the findings of a study entitled "Key Elements to Success Found in Sino-German Joint Ventures in China" jointly carried out by Shanghai's Jiaotong University and the FRG's Berlin Technical College. The study was based upon 16 Sino-German joint and contractual joint ventures. It found that 12.5 percent of the enterprises had exhibited difficulties in reaching agreements, but management in the remaining enterprises had developed so smoothly that they had even been able to weather the political disturbances of 1989. By way of contrast, international studies have shown the instability rate for joint ventures in developed countries to be approximately 30 percent while that in developing countries is even higher at between 45 and 50 percent.

Experts from joint ventures and economic management circles were unanimous in their choice of the eight elements most necessary for a joint venture's success. Over 60 percent of them considered the following three

elements to be "most important": 1) having both sides of a joint venture cooperate in a team spirit of equality, mutual benefit, and mutual willingness to give ground when appropriate; 2) having both sides work single-heartedly, sharing a common enthusiasm for their work; 3) having effective leadership classes. Compared to these three elements, sales management, the business climate, scientific management, and human resources management were only designated as being "important." Factors such as the technical state of an enterprise's facilities, the ability of an enterprise to maintain a foreign exchange balance, and the ability of an enterprise to operate in accordance with international practices were merely deemed as being of "secondary importance."

### Experts Recommend Shanghai Focus on Trade

OW1208102590 Beijing XINHUA in English  
0612 GMT 12 Aug 90

[Text] Shanghai, August 12 (XINHUA)—Shanghai should make a historic shift in the last decade of the century from being the nation's largest industrial base to becoming its largest economic trade center.

This can only be achieved by the development of diversified trade, including not only imports and exports but also trade in capital, investment, commodities, real estate, transportation, technology and information, local economists argued in the local LIBERATION DAILY.

They said minor and soft reforms based on the current local industrial structure and city regions will bring no real breakthrough for the metropolis in the 1990s.

The experts argued that the city should adopt the experiences of early-period Britain, postwar Japan and the four Asian economic miracles.

They stressed that international competition will intensify in the last decade, and the city can only maintain its existence and development through the widening of both international and domestic markets.

In this sense, trade means the city's fortune. And the real impetus for the opening up of the Pudong new area and the revitalization of the city lay in market demands, they said.

Based on these demands, the city should rebuild a new economic order to create a real multi-functional economic center, they proposed.

The rebuilding of the city's economic position, however, faces difficulties such as the sluggish market, lack of raw materials, shortage of funds and aging assets, they said, adding that only the development of diversified trade will allow the city to get rid of these problems.

But there are also opportunities for the city, particularly the historic opening up of Pudong.

The economists suggested the city adopt new thinking on the improvement of its services and industrial restructuring. It should consider substituting industry with diversified trades to take a lead in economic revitalization.

Based on these considerations, they proposed the city should utilise its superior manufacturing and export industry to take on international competition.

## ECONOMIC ZONES

### Guangzhou, Sakhalin Sign Major Barter Trade Deal

90CE0328C *Guangzhou NANFANG RIBAO in Chinese*  
14 Jun 90 p 1

[By Wu Shuxian (0702 3219 6343) and Sui Kaifa (4482 0418 4099): "Guangzhou Development Zone Signs Major Barter Trade Deal with Soviet Sakhalin Oblast"]

[Text] (NANFANG RIBAO)—The ceremonial signing of the economic, technological, and trade agreement between the Guangzhou Economic and Technological Development Zone and the Soviet Sakhalin Oblast was held yesterday evening in Guangzhou's Dongfang Hotel. This is the first cooperative project between the Guangzhou development zone and the Soviet Union.

The agreement signed this time is a large barter trade deal. The Soviet side will provide Guangzhou development zone with goods such as timber, wood chips and scrap steel. The Guangzhou development zone will provide its counterpart with goods that are of equal value, including textile machinery, machining equipment, equipment for producing building materials and beverages, and textile goods and daily necessities.

### Hainan Issues New Measures Encouraging Foreign Investment

90CE0328B *Guangzhou NANFANG RIBAO in Chinese*  
24 Jun 90 p 1

[By Wang Hongru (3769 1347 0320): "Hainan Issues 11-Measure Preferential Policy: Encouraging Investment and Constructing a Treasure Island"]

[Text] Haikou, 22 June (NANFANG RIBAO)—What exactly is included in the preferential policy which the central government has granted to the Hainan Special Economic Zone? Not long ago, after coordination between the Hainan provincial government and concerned departments of the central government, concerned departments in Hainan Province issued the 11-measure policy to encourage foreign investment in Hainan Special Economic Zone.

This 11-measure preferential policy includes such aspects as tax revenue, finance, import and export trade,

land, capital construction, tourism, development of mineral resources, enterprise management, investment protection, employment, entrance to and exit from the area for personnel, and so on.

When he was inspecting Hainan province last May, Party General Secretary Jiang Zemin declared his support for Hainan's opening up of Yangpu. He reiterated that all the preferential measures granted to Hainan by the central government would remain unchanged and that, with the aid of concerned departments of the central government, Hainan could implement the existing policy measure by measure. This newly-issued policy includes the following measures: Since 1 July 1988, foreign-funded and domestically-funded enterprises in Hainan have had a 15-percent enterprise income tax rate levied against incomes they earn from production, management, and other activities, and they have been exempted from local taxes. In minority areas, all enterprises funded by domestic or foreign capital which are engaged in infrastructure construction and production and which are scheduled to operate for more than 10 years shall be exempt from income tax from their first profit-making year to their 10th year. They are allowed a 50-percent reduction in income tax from the 11th year to the 20th year. Commodities imported by local Hainan enterprises to supply the island's own market (including imports of commodities, parts, and accessories which are state-restricted) are granted a 50-percent reduction in tariffs, product taxes, or value-added taxes. Bank deposits in Hainan Province (excluding the central government's financial deposits) are to be retained as credit funds, so the greater the deposits, the greater the credit funds. With the approval of the People's Bank of China, foreign-funded banks, Sino-foreign joint-venture banks, and other financial institutions may now be set up in Hainan. The time limit for transferring land-use rights with remuneration will be 70 years. Capital construction is exempt from construction taxes. Capital construction or technological-renovation projects whose total investment is less than 200 million yuan can be examined and approved by Hainan Province, and should be reported to the State Planning Commission for the record.

### Taiwanese Investment in Zhuhai Increases

90CE0328D *Guangzhou NANFANG RIBAO in Chinese*  
26 Jun 90 p 1

[By Chen Donglin (7115 2767 2651): "Taiwanese Businesses Eagerly Invest and Establish Enterprises in Zhuhai"]

[Text] (NANFANG RIBAO)—The Zhuhai Special Economic Zone is attracting more and more Taiwanese business investment. In the first five months of this year, 13 new Taiwanese-invested enterprises were set up in the city. To date there are already 70 Taiwanese-invested enterprises in the city. Contracted investment of Taiwan capital amounts to \$120 million, with realized investment already over \$50 million.

According to Taiwanese businessmen, the main reason they like to invest in Zhuhai is that the tangible and less tangible aspects of Zhuhai's investment environment are relatively good, and also because Zhuhai has formulated a series of laws and regulations encouraging Taiwanese business investment. In particular, the city's Taiwan Affairs Office acts as an intermediary for Taiwanese businessmen who invest in and set up enterprises. Policy permitting, the office coordinates and solves problems, from leasing factory buildings to water and power supplies, and from transporting goods to entry and exit visas for businessmen. It also often offers legal consultation for Taiwanese-invested enterprises and resolves disputes among enterprises.

Taiwanese business investments in Zhuhai have developed some distinct characteristics since last year. The size of investments has grown from a small amount to a large amount. Investment contracts have changed from short-term to long-term. Investment forms have shifted from joint ventures to wholly Taiwanese-owned investments. Investment areas now include more than 10 industries, such as shoes, electronics, clothing, cosmetics, chemicals, building materials, land development, transport, and aquatic breeding. Investment has developed from labor-intensive investment to capital- or technology-intensive investment. The scale of investment has expanded to comprehensive investments and imports of complete sets of equipment, and is developing towards economies of scale.

#### **Future Goals for Special Economic Zones Examined**

90CEO337A Beijing GUOJI MAOYI WENTI  
[INTERNATIONAL TRADE JOURNAL] in Chinese  
No 6, 30 Jun 90 pp 2-9

[Article by Fan Yifei (5400 0001 7378) and Gu Shaopeng (0657 1421 7720), Fiscal Science Research Institute, Ministry of Finance: "Three Major Problems Studied in the Country's Special Economic Zones"]

[Text] Ever since July 1980 when the CPC Central Committee and the State Council decided on the trial operation of special economic zones, outstanding achievements have been made in building the country's economic zones. In 1988, gross industrial value of four special economic zone cities reached 22.46 billion yuan. This included an output value from product exports of 7.7 billion yuan, which was 34 percent of gross industrial output value, and local government revenues (budgetary portion) of 3.09 billion yuan. Hainan also advanced with giant strides following its establishment as a province.

During the past 10 years, scholars have heatedly discussed the character, goal models, and management systems of the special economic zones. Special economic zone theories have drawn sustenance from socialist economic science, and have provided fresh material and understanding for the development of socialist economic theory. People readily perceive that quite a few theoretical problems in the special economic zone economic

domain are also problems that have to be solved in socialist political economics, and in the development of economics. Here, we will summarize pertinent points of view from the study of special economic zone economics, and also express some of our own opinions in the hope that they will be of benefit in the further deepening of study of pertinent special economic zone problems for better development of the special economic zones.

#### **I. Are the Special Economic Zones Really "Capitalist" or "Socialist"?**

The question of the character of the special economic zones is not just an ideological question. More importantly, unless the character of the special economic zones is defined clearly, the party and the state will lack a premise and a basis for various plans and policies pertaining to the special economic zones. With the formulation of economic theory regarding a socialist planned commodity economy, and particularly after the 13th Party Central Committee advanced the theory that China is in the preliminary stage of socialism, polemics about the ideological significance of the nature of the character of the special economic zones seem to have gradually disappeared. Nevertheless, its practical significance is ever increasing. To a very great extent, the different concepts of the special economic zones' goal model, and management system that we will be discussing later on stem from everyone's different views of the character of the special economic zones.

Questions about the character of the special economic zones were raised when the social economic zones were first born, but numerous people were unable to face these questions squarely at the outset. One research method that we frequently see is a separation of the two issues of the social character and the economic character of the special economic zones, and providing separate answers about each. As an example Tao Dayong [7118 1129 6978] believes that "although social character and economic character are related, it will not hurt to separate them for purposes of explanation." Some comrades say further that social character and economic character are two different concepts. Social character is expressed in terms of the oneness of society's economic foundation and superstructure, while economic character is expressed only in terms of the economic foundation. However, the social and economic character of the special economic zones happens to be antithetical. For the sake of achieving the goal of developing external economic cooperation and technological exchanges, and to use capitalist money and technology to hasten the building of socialism, the special economic zones practice special economic policies and flexible measures, making concessions to and compromising with foreign capital to a certain extent. However, at the same time, we must also adhere to socialism in the superstructure in order to be able to bring the imported foreign capital into a socialist orientation, and to prevent decadent and backward bourgeois things from corroding the socialist

system, and shaking the social foundation of the proletariat as the leading class. Thus, the economic character of the special zones cannot help but be in conflict with their social character. Obviously, these comrades maintain a theoretical separation about the economic and social character of the economic zones for no other reason than to say that the social character of the economic zones can be different than their economic character; even if the special economic zones practice a nonsocialist economic system, the society of the special economic zones is still socialist.

So, are the special economic zones really "socialist" or "capitalist"? There has been a rather large amount of controversy about this question. In a nutshell, there are three basic views.

One view holds that the economy of the special economic zones is socialist in character. Yu Guangyuan [0060 0342 6678] represents this view. His reasoning is as follows: (1) The special economic zones are just small pieces of land that the state has defined as special economic zones that practice certain special economic policies. They are not special zones in a socioeconomic system sense, but only special zones in terms of economic policy and economic administrative system; (2) enterprises under the socialist public ownership system pervade the special economic zones. In the three forms of import processing and export trade operating system, no change has been made in the socialist character of the country's enterprises; (3) even in Sino-foreign joint ventures, because of Chinese inputs of socialist workers, the participation of Chinese socialist funds, and the presence of China's socialist organizational strength, one cannot say that the special economic zones are state capitalist in character.

The second point of view maintains that the special economic zones have state capitalist economies. A fairly large number of people hold this view. Song Zihé [1345 1311 0735] applies dialectic materialist methods to an analysis of the main contradictions and the main aspects of the contradictions. He maintains that although the special economic zones have a state-owned economy under a system of ownership by the whole people, a cooperative economy under the collective ownership system, and a state capitalist economy of Sino-foreign joint ventures, cooperative business operation, and wholly foreign-owned business, and though they also have a worker individual economy, and though there are various kinds of partnerships among these several economic forms, nevertheless, the dominant economic form in the special economic zones is state capitalism.

Inasmuch as the special economic zones' economy is state capitalist in nature, there must be one kind of link or another between this kind of economy and the state and the state-owned economy. How is the leadership and the administration of a socialist country or a socialist economy expressed with regard to the special economic zones' state capitalism? Lu Zufa [4151 4371 3127], et al, were first to discuss this point: (1) The socialist economy

determines the character of special economic zone economic development; (2) the socialist economy determines the scale of special economic zone economic development, and also determines, to a very great extent, the speed of special economic zone economic development; (3) the socialist economy determines the orientation of special economic zone economic development. They further pointed out that when a certain kind of economy is in a leading position, generally, it has to be fairly large both in size and in percentage; however, under special circumstances, size and percentage are not decisive. Whether or not it is decisive depends on whether such an economy has control over the state's economic lifelines, whether it can control the scale and speed of economic development, and whether it can determine the character and orientation of economic development.

To capsule various theoreticians' views about special economic zones being state capitalist economies, they maintain that the special economic zones are complexes in which multiple economic components coexist, that are under socialist administration and leadership, and in which state capitalism is paramount.

The third view maintains that the economy of special economic zones is capitalist in nature. However, the economy of China's special economic zones is neither the state capitalism of the concession system kind or the leasing system kind that Lenin advocated under the New Economic Policy in the USSR, nor is it the capitalism of the export processing zone or free trade zone type common to developing countries and regions. As far as enterprises that import foreign capital for their operation are concerned, it should be said that they practice capitalism, both state capitalism and private capitalism, that the socialist state limits to a certain sphere (or to certain small places). The capitalism of these enterprises is expressed in the following ways: (1) They permit capitalists to invest in plant construction and the operation of all sorts of enterprises and undertakings, as well as to make a profit from their capital; (2) they practice a system of hiring labor, and excess value plays a controlling role; (3) within special economic zones, the various economic relations are mostly market regulated; (4) sole proprietorship enterprises are private capitalist; (5) joint-venture operated or cooperatively operated enterprises are state capitalist. In the final analysis, they are actually capitalist, inasmuch as two classes exist in these enterprises, namely the capitalist class that has the capital and engages in exploitation, and the exploited working class. To regard foreign-owned enterprises in special economic zones as capitalism that the socialist state restricts to a certain scale (or within small zones) is both in keeping with Lenin's ideological principles regarding economic partnerships with foreign capital, and is also in keeping with the actual situation in special economic zones.

Even if people concede that the above three different points of view still exist regarding the economic character of the special zones, they do not hold different



views about the character of special zone society. Virtually everyone without exception believes that special economic zone society is socialist in nature.

Thus, for those comrades who maintain the view that the economy of special economic zones is nonsocialist in character, the following contradiction unavoidably arises: Seemingly, the character of the economy in special economic zones can be utterly different from its social character, the former being "capitalist" while the latter can only be "socialist." In other words, the social form of special economic zones rests on the unity of a capitalist economic foundation and a socialist superstructure. People cannot help but ask whether such a social form can be a reality. Our answer can only be negative. The masses are generally aware that the form of a society is the totality of the economic foundation at a certain stage of development as well as its corresponding superstructure. Historical materialism requires that people understand the character of society in terms of material social relationships and not in terms of ideological social relationships. The term material social relationships used here means production relationships. Marx said, "Production relationships taken together shape so-called social relationships, shape so-called society, and shape society in a certain stage of historical development—a society imbued with distinctive characteristics."<sup>1</sup> That a society's economic system shapes the economic foundation of that society, and determines its political system and people's social understanding is a most fundamental piece of knowledge in historical materialism. A society's economic character, i.e., how the so-called economic structure restricts socioeconomic life, political life, and spiritual life, determines the look of the whole society, and determines the society's character. To split apart and juxtapose the economic character and the social character of the special economic zones is wrong.

Therefore, our viewpoint is that the special economic zones' social character is determined by their economic character, and that the two should be identical, either "capitalist" or "socialist." But are they "capitalist" or "socialist"? Obviously, all we need is a reply about the economic character of the zones to get a full answer to the question.

Theoretically speaking, the economic structure of a society means the sum of the production relationships that hold the dominant position in that society, and not the simple adding up of the various production relationships existing in that society. For example, by a capitalist economic structure is meant the sum of the capitalist production relationships, but not including capitalist individual small production production relationships and remnants of feudal production relationships. Therefore, with regard to the nature of China's special economic zones, one cannot use the mistaken formula of socialism (socialist state or state-owned economy) + capitalism = state capitalism to make a judgment. Although capitalist enterprises or state capitalist enterprises exist in the special economic zones, it is absolutely

not these enterprises that determine the economic character of the special economic zones. Special economic zones also have a state-owned and a collectively-owned economy, and even though these socialist economic components are not dominant in quantity, they may be dominant in quality, and may have control over the special economic zone's economic lifelines (currently, they hold absolute dominance both quantitatively and qualitatively). More importantly, the special economic zones are not isolated areas; they are special economic zones in socialist China. Although they are interlinked with the world economy, they are even more dependent on inland China. As a part of the country's unified socialist economy, they cannot avoid having a thousand and one ties to other parts of the socialist economy, and they have to accept macroeconomic regulation and control from the state as the central controller of the socialist economy. As Marx said, "In every form of society there is one definite kind of production that determines the status and influence of all other production; therefore, its relationships also determine the status and influence of all relationships. This is a light that illuminates everything, that covers all others colors, and that changes their character."<sup>2</sup> On the good earth of China, socialist production relationships are a light that illuminates everything. The totality of the national economy is determined by this, and the special economic zones are no exception. Though it is true that we permit and even encourage special economic zones, open economic zones, and even other ordinary zones in the appropriate development of individual economies, privately owned economies, and imported capitalist economies of benefit to the national economy and the people's livelihood; nevertheless, we positively do not want to change the character of China's socialist economy. If we were to conclude that the special economic zone economies are capitalist in nature because of a certain number of capitalist economic components in them, could we not also say that the farflung areas of the country in which certain capitalist economic components exist are also practicing a capitalist economy. To arrive at a conclusion in this way is obviously unscientific. Possibly some people might say that the economy of special economic zone is capitalist in nature because the capitalist economic component in special economic zones is greater than in other places in the country. Such an argument is a descent into vulgar quantitative determinism that is not consistent with scientific study of socioeconomic matters.

## **II. Is the Goal Model for the Economic Zones Free Trade Zones, Composite Special Economic Zones, or Something Else?**

In a certain sense, the question just posed is even more important than the former one. This is because this question has more practical significance. It directly determines the development orientation of the special economic zones and the orientation of effort by the builders of the special economic zones. When the special economic zones began to be built in China, an initial goal model was prescribed for them as export processing

zones. Later on, this was changed to composite special economic zones that called for simultaneous development of trade and industry, trade being paramount and industry energizing the zones. In reality, however, it was not possible to develop toward this goal model. To a certain extent, development went in a reverse direction. The special economic zones, particularly the Shenzhen Special Economic Zone, led a new force to the fore that was by no means industry, but rather tertiary industries. For a long period of time, industrial and technological progress, particularly the introduction of high technology industries, was not as anticipated. Industry was unable to fulfill its "energizing" mission. Thereupon, while some comrades in the theoretical field cried out in alarm that development of the special economic zones was a departure from the original intention in establishing them, still other comrades began to argue the objective inevitability of special economic zone trade as an energizer. In 1985, the curtain raised on heated discussions about the special economic zones' goal model.

An overall survey of the countries of the world shows no more than four different types of special economic zones: One is various free trade zones that include free ports; the second is export processing zones; the third is science and technology industrial parks; and the fourth is composite special economic zones. The thinking of Chinese academicians about special economic zone development forms did not go beyond these four types; however, it seemed that everyone was most interested in the composite special economic zones and the free trade zones. Controversy has centered around the selection of these two forms. Of course, since the natural conditions, and the socioeconomic conditions in each of the country's five special economic zones differ, their goal direction cannot and should not be completely identical. Numerous theoreticians note this point, and consequently their points of view take into account both the overall goal direction of the country's special economic zones and the specific goal orientation of each special economic zone.

*A. Belief That the Goal Direction of Special Economic Zones Should Be That of Composite Special Economic Zone*

Liu Guoguang [0491 0948 0342] discusses the goal direction of the special economic zones in terms of the country's goals in establishing them. He maintains that the country's goal in establishing the special economic zones was to broaden economic contacts with the outside world, the better to attract foreign capital, introduce advanced science and technology and administrative methods, and to make use of the hub role of the "four windows" and the "two doors." In addition, the zones were for the purpose of making courageous experiments in reform of the economic system to provide experience for system reform nationwide, thereby promoting the socialist modernization of the whole country, and to make a contribution to the strategic policy of maintaining the stability and prosperity of Hong Kong after

recovering sovereignty over it, and to promote the return of Taiwan to the motherland for the realization of "a single country two systems." Since there were multiple goals in the establishment of the special economic zones according to these intentions, their mission and character differs from that of special zones established in numerous other parts of the world as export processing industrial zones, free ports, free trade zones, and scientific parks. Therefore, it is necessary to assimilate their functions to make them composite special economic zones.

Liu Guoguang says further that the strategic goal in building special economic zones is determined by their strategic status and role in the socialist modernization of the whole country...they should be composite special economic zones in which industry is paramount, in which industry and trade both develop, that combine industry, trade, and technology, and in which all trades operate.

Liang Wensen [2733 2429 2773] discusses the goal direction of the Shenzhen special economic zones from the standpoint of the guiding thought and strategy for development of the zone. His line of thinking is basically similar to that of Liu Guoguang.

On the goal direction of the Zhuhai special economic zones, Li Huajie [2621 5478 2638] et al, believe a composite externally oriented economy should be selected as the strategic goal. They summarize this goal as follows: a composite externally oriented special economic zone that takes exports as its orientation, takes advanced industry as paramount, that combines industry, trade, and technology, and that concurrently engages in tourism, business, real estate, agriculture, fisheries, and animal husbandry.

Regarding the goal model of the Hainan special economic zones, the Hainan Investigation and Research Section of the Chinese Academy of Social Sciences proposed in an article titled, "Let Hainan Become a World-Renowned Free Economic Zone" that the ultimate form of the Hainan special economic zone should be establishment of a free economic zones. However, a "three stage leap" of "preparation, operation, and take-off" would have to be made. The period 1988 through 1990 is the preparatory stage when an "export processing zone" should be operated at Haikou City. The period 1991-1995 is the operating stage when a "free port and a science park" should be gradually built. The period 1996 through 2005 is the takeoff period. During this period the focus of external economy work is to be internationalization. A change is to be made in export products from the labor-intensive kind to the predominantly technology-intensive kind for active, effective, and full participation in the international division of labor and international competition, personnel, capital, and commodities circulating fully, freely entering and leaving to enable Hainan to become a free economic zone in socialist China that is renowned throughout the world.

*B. Belief That the Goal Direction of the Special Economic Zones Is Free Trade Zones (or Free Ports)*

Chen Zhaobin [7115 5128 2430] proposes that the countries' special economic zones should select free trade zones or free ports as their goal direction. "If the special economic zones institute free trade zone or free port policies, that will be tantamount to withdrawing to a status as ordinary open cities that cannot use to advantage the special functions of special economic zones."

In the same article, Chen Zhaobin proposed that "Shenzhen's circumstances do not lend it to a role as an export processing zone; it might better be built into a free port zone that would make fuller use of its advantages. Thus, I suggest that Shenzhen should institute a goal direction similar to that of a free port area that accentuates its trade orientation function to usher in a new situation of plural development." How can this "free trade zone" be concretely defined or provided for? He listed seven requirements: (1) Except for special commodities such as cigarettes and alcoholic beverages on which duties should be levied, most commodities should enter and leave the country exempt from duties across a specific line (meaning the customs control line separating the Shenzhen special economic zones and Hong Kong). Commodities entering across a second line (meaning a line separating the Shenzhen special economic zones and other places in China would be subject to duty as usual). (2) Foreign traders, Hong Kong and Macao compatriots, and overseas Chinese should be able to enter and leave without visas. (3) Permits should not be required for imported commodities. They could be stored, classified, graded, packaged, and processed within the zone, and foreign commodity exhibition and sales organs could be established inside China. (4) Production equipment and raw and processed materials for use within the special economic zone should be exempted from duties, import commodity taxes, or added value taxes; however, sales inside China of the products concerned would be taxed in accordance with regulations. (5) Foreign owned banks could do business following approval with freedom to bring in, send out, keep, and exchange funds. (6) The legal profits of enterprises, and the wages of other than Chinese staff members and employees, as well as other proper earnings of enterprises could be repatriated. (7) Both renminbi and Hong Kong dollars would circulate at the same time, exchange rates floating.

Regarding the goal direction of the Xiamen special economic zones, since it has a naturally fine harbor, it is generally believed that it should be a "free port." In an article titled "Free Ports and the Xiamen Special Economic Zone," Du Qiang [2629 1730] maintains that the Xiamen special economic zones should institute the following free port policy: Except for state-controlled commodities, all commodities entering and leaving the Xiamen free port would be free of duty. The Xiamen customs would delegate jurisdiction over the Xiamen special economic zone, the Xiamen special economic zone coming under direct leadership of the State

Council. Except for commodities prohibited from entry by the state, all other commodities would be processed, unpacked, and stored in the port area after which they would be exported or sold inside China following payment of duties. Xiamen port would have authority to conduct entrepot trade at its own initiative, trade with Taiwan, cross border trade, and agent export trade, all foreign exchange earnings being apportioned between the central government and the province. Financial institutions in the free trade zone could borrow money from abroad. Chinese banks and foreign banking institutions in Xiamen could compete equally, issue debentures and stock shares, and promote the free circulation of different national currencies in the market. Subject to approval, foreign clients could enter and leave the port area freely. A special zone administration should be established to separate it from the special zone in order to avoid unpleasant consequences, etc.

*C. Belief That the Special Zone Goal Model Should Be Scientific and Technical Industrial Parks*

In an article in the first 1987 issue of SHENZHEN UNIVERSITY BULLETIN (SOCIAL SCIENCES EDITION), Wang Peiyuan [3769 1014 0337] maintains that in view of the role of the special zones as windows on the world for viewing technology, for viewing the trend of development in world high technology industries, as well as for viewing policies adopted by countries like the United States and Japan to block technology from reaching China, and to understand how backward China's industrial technology is, "the ultimate goal model for economic development of the Shenzhen special economic zones should be that of an externally oriented special economic zone in which high technology is paramount, with general development of trade, finance, and tourism. This is to say that the special economic zone should be guided primarily by high technology industries. It should attract advanced foreign technology, digest it and assimilate it, and then transfer it inland, thereby integrating importation, research and development. At the same time, it should develop new products for export to earn foreign exchange, the special economic zone thereby becoming a hub for the exchange, absorption, digestion, transfer, and innovation of Chinese and foreign technology." In addition, the author also prescribed the following with regard to quality and quantity of "primarily high technology": "As regards quality, the special zone should possess advanced world technology or technology that fills in domestic blanks; with regard to quantity, knowledge and technology-intensive, and high technology industries should account for between 40 and 50 percent of all industry, and advanced applied technology industries should account for 45 percent of all industries, the two together amounting to approximately 90 percent of all industries for the shaping of an industrial structure in the Shenzhen special economic zone in which high technology industries are dominant."

We believe that when studying and planning goal models for the special economic zones, attention must be given

to the following several points: First is the socialist character of the country's special economic zones; second is national economic strategic goals; third is the direction in which the world economy is moving, and the conditions that it may provide for China; and fourth is a rational division of labor for the special economic zones, and for the three large special administrative zones of Hong Kong, Macao, and Taiwan following their return to the motherland. Some comrades imagine that should the goal model for the country's special economic zones be free trade zones, or free ports, it will not be possible to give very much attention to these four points. As a chess move in the overall scheme of socialist economic development, the goal of special economic zones does not lie in the establishment of several liberalized markets, the country deriving exchange places and commercial benefits from them. In fact, there has been no lack of such markets to provide benefits in the past nor will there be in the future, particularly after 1997. Liu Guoguang was right in saying that the goal in establishing special economic zones lies in "expanding foreign economic contacts the better to attract foreign capital, and to import advanced science, technology, and administrative methods..." Obviously, operating the special economic zones purely as free trade zone will make realization of this goal very difficult. Free trade zones also mean a completely free market economy. Whether this is consistent with the socialist character of the special economic zones also merits examination. Strategy for the special economic zones is an organic integral part of development strategy for the whole country. It has to be subordinate to needs in the whole country's economic and social development. By the principle of incremental advances in productivity, China's coastal regions are bound to lead the country in advances in productivity, particularly technological advances, and the special economic zones should use to the full the advantages they enjoy in being close to international markets, ready flow of information, and large numbers of skilled people to advance to the very front ranks, becoming a daring vanguard for scientific and technical advance, introducing, digesting, and innovating technology, and transferring it inland. Only in this way can the special economic zones make the contribution they should make in fundamentally improving the country's self-reliance, independence, and initiative. Only in this way can the special economic zones themselves be possessed of solid strength that enables them to withstand buffeting by the storms of international markets and be in an invincible position. Therefore, we are inclined toward building the special economic zones into composite special economic zones in which science and technology play leading roles, and that combine technology, industry, and trade. No single element may be omitted. It is particularly necessary to guard against completely emphasizing technical progress to the neglect of the development of industry, thereby turning the special economic zones into purely commodity trade collection and distribution centers, places where middlemen gather, and places that use differences between domestic and international market prices to exploit situations inside the country.

### III. What Kind of Economic Administrative Systems Should the Special Economic Zones Use?

In terms of a planned economy and a market economy, and a combination of the two, there are no more than four different kinds of economic administrative systems as follows: In one, planning is paramount and the market supplementary; in the second, the market is paramount and planning is supplementary; the third is entirely a market economy; and the fourth is entirely a planned economy. Which kind of administrative system the special economic zones should choose was a problem in urgent need of an answer when the special economic zones were founded. In any case, we had very little choice; therefore, controversy about this issue seems much less than about the other two foregoing problems. Even in capitalist countries, a pure market economy cannot be found nowadays. Much less could China's special economic zones institute such an administrative system having a certain utopian hue. The highly planned economy (approaching a totally planned economy) traditionally represented by the USSR's economic system is the object of our present reforms, and it cannot become a choice for the special economic zones. The combination of a plan and market economy in which plan is paramount and markets supplementary that exists on such a large scale throughout China today was long ago decided on as being the goal to be attained in reform of the country's economic system, and it is actually toward this goal that we are advancing. As a proving ground for nationwide reforms, and being in the forefront of the opening to the outside world, the special economic zones' administrative system cannot differ from that of other regions for otherwise "special" would become ordinary. Therefore, people very naturally settle on the second type, i.e., the system in which the market is paramount and plan is supplementary as the administrative system for the special economic zones.

In both an economic system in which planning is paramount and the market is supplementary, and in one in which the market is paramount and plan is supplementary, the problem of how to dovetail and combine plan with market, i.e., people's conscious will with the spontaneous will of the market so that they augment each other and operate harmoniously is an extremely difficult one. An overall look at both aspects suggests that no country in the world has yet found a complete solution to the relationship between plan and market. It is for just this reason that quite a few students of the special economic zones try to solve the problem of how to combine plan and markets in administration of the special economic zones by formulating concrete descriptions of the new economic system in special economic zones, and remedies for a change from the old to the new system in the special economic zones

#### *A. Description of Special Economic Zone Administrative System Model*

Yu Kaixiang [0151 7030 4382] said that "since special zone capital, equipment, and raw materials come mostly

from international markets and the sale of products is mostly geared to international markets, and since the main component in the economy of the special economic zones is state capitalism, in addition to which the special economic zones (meaning Shenzhen) neighbor Hong Kong, and the special economic zones are closely affiliated with world markets, these factors determine that the laws of value, and the laws of competition will be bound to play a controlling role in the economy of the special economic zones. The economy of the special economic zones cannot help but be regulated mostly by the market, and mostly by the international market." So, how is the government to regulate and control the market economy? He believes: "Within the special economic zones exists a socialist state-owned economy and collective economy. Our hands control fiscal, tax, banking, credit and price levers. We also have various legal, regulatory, and administrative methods at our disposal. So long as we are adept at applying these economic forces, economic methods, economic legislation, and necessary administrative control, we can put the special zones' market economy on the national planning track." Continuing, he further described the special economic zones' system model as follows: "In the economy of the special economic zones, state plan should continue to play a guiding role; however, state plan regulation consists mostly of macroeconomic regulation. Microeconomic regulation is largely via the market. State macroeconomic plan regulation is expressed mostly in the formulation of intermediate and long-term economic plans. It is also expressed in the formulation of annual economic plans based on investigation and forecasting, the application of various kinds of economic methods and economic regulations, and the exercise of necessary regulation, direction and control over the important proportional relationships among various departments in the economy of the special economic zones in order to guard against and overcome blindness in action."

Tao Dayong maintains that the economy of the special economic zones should be a planned market economy. He notes that government plan control includes "master plans, investment projects, land use, length of contracts, scale of operations, class of business, labor wages, foreign exchange control, and government financial preference."

He Haosheng [6320 6964 5110] believes that the economy of the special economic zones should be primarily market regulated, the emphasis of state plan guidance being placed on the direction of economic development, the scale of economic construction, production layout and city layout.

#### *B. Establishment and Perfection of Special Economic Zone Economic Administrative System*

The special economic zones' new economic administrative system grew out of the country's traditional economic system; consequently, a gradual process of formation and perfection is required. It is such a process that is also the process for formation of the special economic

zones' markets. In the special economic zones, formation of just a single commodity market is far from enough. A planned market economy must have a complete, or a relatively complete, market system. In addition to commodity markets, this system has to include means of production, labor, capital, real estate, technology, and information markets.

An article from the Shenzhen Investigation and Research Unit of the Chinese System Reform Institute titled, "Shenzhen: Market Economy Development and System Reform," proposed means for dealing with the formation of a new economic system in the Shenzhen special economic zone. "First of all, formation of an open market system is the key to a new economic system for Shenzhen. Shenzhen markets should be open to China and to the outside world; control over industry and business should be simplified; limitations on the scale of enterprise operations should be liberalized; and free registration, and autonomy in operation should be gradually instituted. A market system that links together means of production markets, financial markets, real estate markets, and workforce markets should be formed, and control over interest rates, foreign exchange rates, and various other kinds of prices should be gradually relaxed. Second is an enterprise system that is responsible for its own profits and losses, and that makes its own decisions about development. This is the foundation for Shenzhen's new economic system. Third, attendant with reforms in these two regards must be a gradual change in government administrative functions whereby enterprises are able to operate in accordance with international practice... gradually shaping various regulation and control measures for the regulation of socioeconomic activity that include fiscal policy and financial policy methods for the regulation of socioeconomic activity. Fourth, simultaneous with a change in government functions, efforts must be made to spur the maturation of various intermediate organizations, and the formation of new mechanisms for coordinating economic activities and dovetailing relationships among enterprises, further developing various trade associations. In addition is the development of a number of more comprehensive intermediate organizations, particularly enterprise federations, trade promotion societies, and investment promotion societies, these organizations gradually replacing the role that government now exercises in attracting foreign capital and stimulating exports.

With regard to measures for perfecting the market system in special economic zones, Wang Peiyuan proposes "expansion of individual consumption markets, including complete commercialization of housing, and full expansion of the tourism market. Complete opening up of means of production markets means mostly the opening up of the real estate market. Hiring systems and contract systems should be fully instituted to improve labor markets. Financial markets should be completely opened up, including the development of commercial



credit and an expansion of trading in negotiable securities and bank negotiable security contracting, using the issuance of stock share debentures to hasten the development of stock share companies and lateral economic partnerships. Regional financial institutions should be developed for an expansion of credit business outside plan. Full use should be made of the advantages that use of the foreign owned bank foreign exchange business provides for the development of special economic zone foreign exchange business."

The Hainan investigation and study unit of the Chinese Academy of Sciences believes that "the key to forming a first rate open market system...lies in removal of restraints on prices, including commodity prices and labor prices, as well as interest rates, exchange rates, wages, house rents, and land prices. The removal of restraints on various kinds of prices basically can be said to be the formation of various kinds of markets."

It should be said that formation of a market system in the special economic zones would not be at all very difficult, because the special economic zones do not lack sound market entities, which happen to be of crucial importance. The reason other places in the country are unable to form sound markets is that the numerous publicly owned enterprises find it difficult to form an independent market entity. We believe that the greatest difficulty in the special economic zones' economic administrative system may lie in perfecting the market climate. In a certain sense, the special economic zones exist in a niche between the international market and the domestic market. They must simultaneously orient themselves toward both international and domestic markets. This is an extremely complicated situation. If one says that within the foreseeable future the double track price system in the vast internal market may be unified, the special economic zones have no choice but to accept the reality of a double track price system in perpetuity. In the foregoing, some comrades referred to market regulation in the economy of the special economic zones as not only regulating the domestic market, but also regulating the international market. This point of view began to touch on the crux of the matter. In view of the extreme importance of the major market parameter that prices are, we believe that though it is true that plan control in the special economic zones includes plans for the layout of productivity, industrial policies, and aggregate economic control, a greater possibility for expressing plan will is through regulation of double track prices in the zones. Regulation of double track prices entails both conscious application of the laws of value, and implementation of economic plans and industrial policies. Possibly the linch pin between plan and market in the special economic zones' economic system lies here.

#### Footnotes

1. *Selected Works of Marx and Engels*, Vol 1, p 363
2. *Complete Works of Marx and Engels*, Vol 46, Book 1, p 44

### Taiwan Businessmen Plan Industrial Zone in Hainan

90CE0328A Beijing GUOJI JINGMAO XINXI  
in Chinese 5 Jul 90 p 1

[By Wen Zhou (2429 0719): "Taiwanese Businessmen Plan Special Taiwanese-Invested Industrial Zone in Hainan: A Good Investment Environment in Hainan"]

[Text] (GUOJI JINGMAO XINXI)—According to reports from the Taiwan CHING-CHI JIH-PAO [Economic Daily], in August and September of this year a delegation of forty members from Taiwan's industrial and commercial circles will visit Hainan Province for an investigative tour. They are seeking to establish a special Taiwanese-invested industrial zone in Hainan Province where Taiwanese businessmen can invest and build factories.

According to our understanding, this delegation was set up in Hong Kong in February of this year. It is sponsored by the Hong Kong and Taiwan Chamber of Commerce, and is the first people-to-people organization from Taiwan's industrial and commercial circles. The interested participants are Taiwanese industrial and commercial business people from the garment, electroplating, textile and other industries.

This investigative delegation will draw on its strength and strive to set up a special Taiwanese-invested industrial zone in Hainan Province. The zone will have an area of 5,000 to 10,000 mu, and the selected location will not be more than half-an-hour's driving time from the port. Also, it will be located in a place with relatively good drainage systems.

Since Hainan Province was designated as a special economic zone in 1988, its funds have increased several dozen fold and construction in all fields has taken off, especially in the area of developing water and power resources. Now Hainan Province is no longer an area with a power deficit, and thus it is attracting many overseas enterprises to come and invest.

In order to attract foreign businesses to invest in Hainan Province, Hainan grants a tax exemption to all those who export to the United States or to Europe. Businesses can also receive loans for 70-80 percent of their factory building and machinery costs. Equipment, goods, parts, and raw materials needed for manufacturing and processing can be tax-exempt too. Moreover, household appliances and equipment and communications tools needed by investors will also be given preferential tax-exempt status.

### Japanese Show Interest in Pudong

90CE0408A Shanghai WEN HUI BAO in Chinese  
17 Jul 90 p 1

[Article by Tokyo correspondent Lin Xiaoli (2651 1420 0448): "Development and Opening Up of Pudong New Zone Attracts Worldwide Attention, Evokes Widespread



Interest and Serious Attention in Japanese Economic and Entrepreneurial Circles"]

[Text] The news, announced in April this year, of the development and opening up of Shanghai Municipality's new Pudong zone has evoked widespread interest and serious attention among Japanese economic and entrepreneurial circles. A few days ago, I went to interview some Japanese economic and trade organizations, such as the Japan International Trade Promotion Association, the Association for Sino-Japanese Economic Cooperation, and the Japan Trade Development Association. It is the general belief among these groups that the economic development of Pudong is an important link in China's economic development, reform, and opening up, and deserves an important place in the economic development of the Asian-Pacific region, as it will also be found most attractive by Japan's economic and entrepreneurial circles.

Morita Takashimaru, chairman of the board of the Japan International Trade Promotion Association, specially went to Shanghai the last week of May for an investigation. With him was Kasai, a director and former deputy chief of the business department, who told us that they had been cordially received by Mayor Zhu Rongji, that they had had a frank exchange of opinions on the question of developing Pudong, and had thereby enhanced their understanding of the importance of the Pudong development plan. They also told us that in order to promote investments by Japanese private enterprises, the Japan International Trade Promotion Association will organize this coming September an "inspection tour of the new Shanghai-Pudong metropolis," with 20 enterprises participating in the tour, for a thorough inspection of the Pudong project. The Association for Sino-Japanese Economic Cooperation is also preparing the dispatch of its own inspection team.

I also interviewed by telephone Japan Economic and Trade Center, located in the Kansai region of Japan. An agent of that organization gave me the following news: A symposium organized by them for the discussion of the new Pudong Zone at Shanghai already held its first meeting on 8 June. At that meeting, the general condition and planned dimensions of the new Pudong Zone were presented, evoking greatest interest among the participating entrepreneurs. They intend to invite Ni Tianzeng [0242 131 1073], deputy mayor of Shanghai and deputy head of the new Pudong Zone leading group, who had visited Japan before, to come again to give a comprehensive and detailed statement on the situation.

A few days ago, Kawachi Seiyu, head of the Shanghai bureau of Yokohama Kogyokan had returned to Yokohama on business. When I had occasion to discuss with him the new Pudong Zone development plan, he showed keen interest and told me that the development of Pudong will undoubtedly benefit from the sound industrial basis that Shanghai can provide, from the commercial skill and devotion to service of its inhabitants, and

also from the quite substantial financial resources, scientific and technical talents, and other manpower. He was looking forward to the success of the Pudong development.

In Sino-Japanese economic and trade interchanges and cooperation, stable progress has already been achieved through joint efforts by the two countries over an extended period of time. A person who had for a long time been engaged in Sino-Japanese trade and cooperation frankly told me that private cooperation in Sino-Japanese trade, whether crowned with success or offering lessons in failure, may all well become useful references for future cooperation between the two countries. The Pudong development plan again provides broad prospects for this kind of cooperation. There were many more people who gave well-meaning opinions and suggestions in connection with the development of Pudong. Machida Yoji, head of the Industrial Investigation Department of the Comprehensive Research Institute of the Japan Short-Term Credit Bank recently published an article entitled "Development of Pudong" in KOKUSAI BOEKI [INTERNATIONAL TRADE] magazine, in which he saw the development of Pudong as "a century-spanning huge enterprise," and expressed the hope that Japan will not only provide financial assistance, but also fully cooperate from the very start in its planning stage, thus duly contributing to this huge enterprise.

#### **Shanghai Delegation Visits Osaka, Promotes Pudong**

90CE0408B Shanghai WEN HUI BAO in Chinese  
22 Jul 90 p 1

[Article by Tokyo correspondent Lin Xiaoli (2651 1420 0448): "Pudong Is Hot Topic of Discussion Among Osaka Entrepreneurs"]

[Text] Shanghai's Goodwill Mission, led by Vice Mayor Ni Zengtian [0242 1131 1073] and two specialists, one for development of Shanghai-Pudong and one for Shanghai city development, yesterday presided together at a large-scale "Shanghai Economic Development Planning and City Refurbishing Scheme" symposium, jointly sponsored by the two cities of Shanghai and Osaka. Shanghai's Vice Mayor Ni Zengtian and leading cadres from the Pudong Development Office presented in great detail the distinctive advantages of the development of Pudong, and the specific program for such development, to the over 500 participants, who came from Japanese governmental and private enterprise circles, as well as other interested personalities, indicating the great attractiveness of the Pudong development scheme.

Pudong, a 350-square-kilometer triangular piece of land, has in recent days become a hot topic of discussion among Osaka's entrepreneurial circles. Ishida Teifuda, head of the business department of Japan's Marubeni Company, well-known as a "China expert," believes that two new trends have presently appeared in Sino-Japanese economic exchanges: one is the expanding domestic demand in Japan coupled with a rapid increase

of exports of Chinese products to Japan; and the other is the rapid increase in Japanese investments in large and medium-sized Chinese manufacturing enterprises. Both these trends are extremely beneficial for the future of the Pudong development zone. Kasai Kazuhiro, deputy director of the investigation department of the Japan Comprehensive Research Institute and an economist of long standing who specializes in the banking industry, remarked that, compared with what is going on in Eastern Europe and other Asian countries, the Pudong development zone is a project on an even larger scale with an even more solid industrial foundation, and for this reason it is of even greater attractiveness. He suggested that the development of Pudong should be oriented toward the 21st century by fully asserting superiority in industrial and technological innovations.

During the discussion, an Osaka industrialist raised the question whether it would be possible, since Shanghai and Osaka are sister cities, to offer people from Osaka preferential conditions? Sha Lin [3097 7792], leading cadre of the Pudong Development Office, replied, "In this matter we shall treat everybody equally without discrimination, but when old friends approach us, they will be accorded a most cordial reception." On hearing this witty reply the whole meeting relaxed in a burst of happy laughter.

An official of Osaka City's Department for International Interchanges, one of the sponsors of the symposium, told me that because the investment climate in China has improved greatly during the last 10 years, more than 400 Japanese entrepreneurs have gone to Shanghai for on-the-spot investigations since the Pudong development scheme was announced. The area of Pudong is about 2.5 times that of Osaka City, and as the two cities are sister cities, Osaka will render utmost cooperation in every possible respect.

During its visit, the Shanghai goodwill mission also went to see the "International Flower and Greening Exhibition," the world-famous Seto Bridge, and Osaka harbor. On the 23d, they will hold a meeting in commemoration of the 10th anniversary of friendly interchanges between Shanghai Municipality and Osaka Prefecture. Later, two more meetings will be held, dealing specifically with the development of Pudong and of Shanghai City.

### **Nantong Beefing Up Services, Investment Incentives**

*OW0708074090 Beijing XINHUA in English  
1353 GMT 6 Aug 90*

[Text] Nanjing, August 6 (XINHUA)—Nantong, one of China's 14 coastal cities open to the outside world, will make efforts to improve services, promote the people's awareness of the need to boost the open policy, raise efficiency to provide a better investment environment and legal system, Mayoress Xu Yan said.

Xu, 46, told XINHUA that since the implementation of the open policy in 1984, Nantong has set up an economic

and technological development zone. The state has also given approval for the six counties under Nantong's jurisdiction to become an open area in the Yangtze River delta and the 223 towns there to develop as industrial satellite towns.

The city, located near Shanghai, is flanked by the Yangtze River and faces the Yellow Sea. It covers 8,000 sq km in north Jiangsu Province.

In recent years Nantong has constructed transportation, telecommunications and power facilities, as well as luxury hotels to attract overseas investors.

The city has built six deepwater berths to accommodate 10,000 dwt vessels, opened 100 maritime routes to link itself with 49 countries and regions, set up a highway network and opened an air route to Beijing.

Nantong has imported a 12,700-line program-controlled switchboard and 408 long-distance program-controlled telephones. The power generating capacity has been expanded from 340,000 kw to 1,040,000 kw.

While the city will continue to improve its infrastructure facilities it will also make more efforts to improve the "soft" environment, Xu said.

First, the city will set up a unified system to deal with overseas investment—the Nantong Open Work Committee—which will exercise leadership, coordination and supervision over overseas investment and trade so as to cut red tape and raise efficiency.

She said that it is necessary to train more officials and workers to become familiar with the needs of an export-oriented economy.

The city also plans to conduct education in international economic laws among all citizens and make everyone play his role in the implementation of the open policy.

"Since the central and local authorities have worked out a series of preferential treatment policies and measures as regards overseas investors, it is important for us to implement the policies earnestly and let investors obtain real benefits," Xu said.

"The city government will make a survey on implementation of the preferential policies and allow no department to refuse to implement the policies under any pretext whatsoever," she stressed.

According to the latest statistics, 92 foreign-funded enterprises have been set up in Nantong and 49 have gone into operation. A survey of the 40 joint ventures and co-operative enterprises which have been in operation for more than six months shows that they have produced an output value of 370 million yuan (about 80 million U.S. dollars) and their exports have earned 29.38 million U.S. dollars.

### Shanghai's Minhang Economic Zone Gets Foreign Funding

OW1108030090 Beijing XINHUA in English  
1429 GMT 10 Aug 90

[Text] Shanghai, August 10 (XINHUA)—When the U.S.-funded Shanghai Kaite Candle Art Company, Ltd received the 62nd business license from the city's Minhang Economic and Technical Development Zone, three other foreign-funded enterprises had also been set up and put into operation in the zone.

At present, total foreign investment in the 2.13 sq km zone has reached 220 million U.S. dollars.

In the past four years, the total output value of the enterprises that go into production has increased at an average rate of 100 percent each year. Total industrial output value reached 680 million yuan (about 136 million U.S. dollars) in 1989.

Meanwhile, several projects for the development of the remaining one fifth of the zone are now under discussion with foreign investors, according to Lu Youming, director of the Minhang Cooperative Development Company.

## AGRICULTURE

### Jan-Jun Cereal, Oil, Food, Cotton Exports

HK1508131990 Beijing CEI Database in English  
15 Aug 90

[Text] Beijing (CEI)—Following is a list showing China's export volume of cereals, oils, food and in the first half of 1990, released by the General Administration of Customs:

Name	Unit	Jan.-June 1990	Jan.-June 1989
Pig	head	1,376,838	1,476,548
Poultry	in 10,000	2,110	2,178
Beef	ton	32,992	30,644
Pork	ton	58,679	38,205
Chicken	ton	15,716	11,420
Rabbit	ton	6,396	8,265
Egg	in 1,000	314,110	356,788
Aquatic products	ton	163,374	125,125
Fish	ton	18,762	22,075
Prawn	ton	36,892	21,235
Cereals	ton	2,460,377	3,177,780
Rice	ton	191,765	157,628
Soybean	ton	511,194	536,465
Pulses	ton	348,260	182,196
Maize	ton	1,274,346	1,574,134

Vegetables	ton	329,190	323,176
Fruit	ton	64,631	61,489
Orange	ton	25,784	24,278
Apple	ton	20,547	16,186
Sugar	ton	289,168	65,970
Canned food	ton	277,636	257,740
Pork	ton	47,107	36,042
Vegetables	ton	152,813	158,138
Fruit	ton	36,746	34,041
Others	ton	40,970	29,519
Vegetable oil	ton	83,830	7,395
Peanut	ton	201,523	175,017
Cotton	ton	84,701	139,383

### July Exports of Cereals, Oils

HK2408112990 Beijing CEI Database in English  
23 Aug 90

[Text] Beijing (CEI)—Following is a list showing China's export volume of cereals, oils and food in July 1990, released by the General Administration of Customs:

Item	Unit	July 1990	July 1989
Pig	head	241,590	227,178
Poultry	in 10,000	314	356
Beef	ton	14,565	7,449
Pork	ton	8,553	14,690
Chicken	ton	2,438	2,764
Rabbit	ton	1,779	2,370
Egg	in 1,000	39,860	29,555
Aquatic products	ton	25,000	22,904
Fish	ton	5,274	2,875
Prawn	ton	1,602	1,958
Cereals	ton	516,306	511,740
Rice	ton	5,748	31,197
Soybean	ton	95,082	128,248
Pulses	ton	37,844	30,207
Maize	ton	348,031	267,681
Vegetables	ton	75,932	76,110
Fruit	ton	16,029	15,577
Orange	ton	16	
Apple	ton		
Sugar	ton	70,682	61,147
Canned food	ton	62,181	48,547
Pork	ton	9,501	9,999
Vegetables	ton	44,134	24,428
Fruit	ton	3,321	7,512

Item	Unit	July 1990	July 1989
Others	ton	5,225	6,607
Vegetable oil	ton	10,105	3,543
Peanut	ton	30,807	32,384
Cotton	ton	20,964	50,402

### Government Promotes Spaced Rice Planting Technique

OW0908034490 Beijing XINHUA in English  
1407 GMT 8 Aug 90

[Text] Changchun, August 8 (XINHUA)—China has decided to popularize in its northern areas the new spaced planting technique for upland rice, according to officials at the Ministry of Agriculture.

The technique was spread this year to about 13 million mu (about 860,000 ha) of rice in China's northern latitudes which have a short frost-free period, accounting for about one-third of the acreage under rice in 11 northern provinces.

Experts say that the new technique has many advantages: It can save water and rice seeds, and produce high-yield and early-maturing quality rice.

The total output of rice in the past six years in northeast China's Heilongjiang Province has increased by 140,000 tons on 1.9 million ha of land through use of this technique.

In neighboring Jilin Province rice experts doubled or tripled the space between rows of rice shoots and used an early-maturing and cold-resistant variety of rice with strong tillering capacity.

Compared with the traditional method, experts say, the new technique can save 30 percent of labor, 40 percent of fertilizer, 50 percent of plastic sheeting and rice seedling bed area, and 60 percent of seed. It can cut costs by 40 percent and increase unit yield by about 15 percent.

The new method was introduced into Chengde prefecture in north China's Hebei Province and the unit yield of 200,000 mu (about 13,000 ha) averaged 6,300 kg per ha, 1,500 kg higher than before.

The State Science and Technology Commission believes that the technique is applicable in the northern part of China with a frost-free period of 110 to 180 days.

### Guizhou Province Reports Progress in Afforestation

OW0208075890 Beijing XINHUA in English  
0610 GMT 2 Aug 90

[Text] Guiyang, August 2 (XINHUA)—Guizhou Province's mountain areas used to be barren and desolate, but today they are covered with green trees.

Nowadays, the southwest China province has 30 million mu (about two million ha) of planted trees.

Hills cover 87 percent of Guizhou's total area, and in these hilly areas about 900,000 mu of trees have been planted every year in recent years.

Statistics show that 9.4 million mu of hills have been closed off to facilitate afforestation since 1985.

The province now has nine million mu of economic forests which include tung, tea-oil and chestnut trees. Their annual output value has reached 100 million yuan (about 20 million U.S. dollars).

It is learned that during the period 1990-1996 the province will plant 40,000 ha of timber with World Bank loans in the Congjiang, Rongjiang and Liping minority-inhabited areas.

### Henan Grain Production Problems, Solutions

90CE0339A Zhengzhou HENAN RIBAO in Chinese  
7 Jul 90 p 2

[Article by the Henan Provincial Grain Problems Research Team: "Predicament and Way Out—Research on Grain Production Problems in Henan Province"; written by Li Linhe (2621 2651 3109) of HENAN RIBAO]

[Excerpt] [Passage omitted]

### Henan Province's Grain Production Capability

Natural resources, scientific and technological conditions, and economic capability are the three big factors determining grain production capability. Of them the economic capability and the scientific and technological conditions can be changed by people's efforts, but it is very difficult to influence the state of natural resources by manpower.

Henan's grain production is conditioned by two big natural resources: land and water. First, the area under cultivation is small, and also because land is used for various construction projects it is constantly decreasing in area. Second, there are the water resources. At the present level, to produce each kilogram of grain there must be expended over 600 kilograms of water, and Henan's water resources per cultivated mu is only a little 400 cubic meters. Of course, these two natural resources have not yet been used in the best way possible.

In accordance with the landforms, light and temperature, water resources, and cultivation habits, Henan's present more than 100 million mu of cultivated land can roughly be divided into large plains, which can be irrigated, south of the Huanghe River and north of the Huanghe River, the Xinyang paddy area, and the mountain and hilly area, which lacks water resources and inconvenient to cultivate.

Based on scientific calculation, if the conditions provided by the materials condition and modern science

and technology can be fairly well satisfied, and if the land and water resources can be used fairly well, the principal

grain crops in the above four large areas will roughly have the following per-unit area yield (kilograms):

	Wheat	Corn	Paddy	Soybean	Sweet Potato	Food Grains Other Than Wheat and Rice
North Huanghe Plain	325	400	450	125	375	200
South Huanghe Plain	310	370	425	100	375	150
Xinyang Paddy Area	210	275	425	100	275	150
Mountain and Hill Area	225	225	400	80	250	175

Since 1975 the area sown to grain in Henan each year has been between 133 million mu and 141 million mu. If the area sown to grain in 1987 is calculated at 141 million mu, the the province's annual capability in grain production is 39.23 billion kilograms, of which that of the North Huanghe Plain was 6.67 billion kilograms, that of the South Huanghe Plain was 2.07 billion kilograms, that of the Xinyang Paddy Area was 3.085 billion kilograms, and that of the mountain and hill area was 8.825 billion kilograms.

#### Contradiction Between Supply and Demand

Henan's per-capita grain amount in the early fifties was only about 250 kilograms, and it is now more than 370 kilograms. With this big increase in grain, why is there felt to be a shortage? The basic reason is not that people are eating more, but is mainly that there is more consumption of grain in the production of animal-type foodstuffs. At present in Henan the per-capita output of meat and eggs, which was a little over 3 kilograms in the early period after liberation, has increased to 16 kilograms, and for each kilogram of meat and eggs produced, on average about 10 kilograms of grain are consumed.

#### Several Figures (1987)

	Per-Capita Income (Yuan)	Per-Capita Intake of Animal-Type Foodstuffs (Kilo- grams)
China as a Whole	698.2	28.9
China's Cities and Towns	1012.2	39.8
Japan (1965)	780 (\$)	80.3

From the above table, namely, Henan's present per-capita production of meat and eggs, we can make the following three forecasts:

1. By 1994 or 1995, Henan's population will be about 88 million. If the per-capita income level reaches the 1987 per-capital income level in China as a whole, and the per-capita animal-type foodstuffs consumption also reaches the per-capita level in 1987 in China as a whole, Henan's total demand for grain (grain rations, seed, feed, and industrial-use grain) will be more than 37.2 billion kilograms, approaching Henan's grain production capability.

2. In 1999 or 2000, Henan's population will be about 93 million. If the per-capita income is that of China's city and town population in 1987, and the per-capita animal-type foodstuffs are also equal to that of China's city and town per-capita amount, then Henan's total grain demand will be 48.7 billion kilograms, exceeding Henan's grain production capability by nearly 10 billion kilograms.

3. In line with the central authorities' proposed \$1,000 in per-capita output value in the year 2000—in Henan this will be deferred until 2005, when the population will be about 100 million—if the per-capita animal-type foodstuffs reach Japan's 1965 level, then Henan's total demand for foodstuffs will be 83 billion kilograms, double Henan's production capability of 39.28 billion kilograms.

Of course, the above three forecasts are made only under the premise that there will not be a big breakthrough in the science and technology for grain production and that the animal-type foodstuffs production will remain, with respect to grain production, at the present level. In fact, even if there is no big breakthrough in the science and technology for grain production, to mitigate the contradiction between supply and demand in grain there is a lot of work we can do.

#### Countermeasures

To resolve the contradiction in Henan between supply and demand in grain, we must start from the two aspects of increasing income and decreasing expenditure.

In increasing income, first of all there are the conditions in using modern science and technology and in using resources, increasing grain output by raising the land productivity rate and the labor productivity rate.

This is the traditional practice in all countries of the world.

We must also take this path.

A problem linked to this path is that in China there are many people on little land. It will not do to increase grain production by expanding the cultivated land; it can only be done by increasing input. The law of progressively diminishing returns from land determines that doing things in this way is bound to greatly increase the cost of

grain production. Because of this, under the circumstances in which it is impossible to make a large readjustment of the price of grain, the peasants' enthusiasm for planting grain flags. For example, in the period 1951-1955, peasants in Henan had to put in only 60.9 yuan in the means of production to increase grain output by one ton, but in 1986 this figure reached 298 yuan, and it is now nearly 400 yuan. Therefore, it will not do to depend solely on this path to increase income.

Second, import grain from outside to replace local production.

Following are the main ways to do this:

1. Buy grain on the international market.
2. Adjust the planting structure by planting crops that get better results than grain, and from exchanging these crops on the international market get more grain in return.
3. Buy grain on the international market, and after processing it reexport it, getting grain in exchange for the profits therefrom.

China's Taiwan Province is an example of the two latter ways of replacing local grain production.

In 1987 Taiwan only produced 2.26 million tons of grain, and it imported as much as 6.51 million tons. While importing grain, Taiwan exported a large amount of asparagus, mushrooms, flowers and plants, meat, and other agricultural and sideline products. In this year, in pork alone it exported 137,000 tons, three times the amount exported by Henan. In the entire year Taiwan paid 48.632 billion New Taiwan Dollars to import grain and other agricultural products, and its income from the export of agricultural and sideline products was as high as 93.78 billion New Taiwan Dollars, thereby successfully, with its little cultivated land resources and abundant labor resources, getting on the international market funds by replacement that greatly exceeded its grain production.

**Comparison of Import-Export Results on Several Main Agricultural Products**

Export (\$/Kilograms)	Import (\$/Kilograms)	Exchangability—Wheat (Kilograms)	Exchangability—Corn (Kilograms)
frozen pork 1.72	corn 0.091	17.2	17.7
frozen chicken 1.5	wheat 0.10	15.0	15.5
frozen rabbit 1.99	soybean 0.224	19.9	20.5
dried Xianggu mushrooms 8.5		85.0	87.6
dried Mu'er edible fungi 7.6		76.0	78.0
cotton 1.7		17.0	17.5

From this table it can be seen that it is highly worthwhile to increase the export of meat and economic crops in exchange for grain.

One idea is that China is a country with a large population and the solution to the grain problem cannot depend on others, and other countries also cannot support it. This statement is, of course, correct. The main part of China's grain production can only come from inside China itself, but this does not mean that we do not need to supplement it with grain obtained by foreign interchange. This supplement will play a very large promotional role in the development of Henan's economy.

Some people worry whether there are grain resources abroad that will provide us with this supplement. For a considerable period of time, this worry is unnecessary. At present, because the developed countries of the world find it difficult to sell grain, they are engaged in a fierce subsidized competition. Every year America and West Europe use as much as \$70 billion on the cost of subsidies for agricultural product export. America's exported grain accounts for half the world's. In 1983 America demanded that its farms, besides stopping tillage on the original amount of land, stop tillage on 10 to 30 percent more land. In 1986 it increased the fallow land area by 26 percent. In 1987 it decreased the area planted to grain by 12.2 million hectares. From this it can be seen that to substitute the labor resources that we are forced to let idle for the development of cultivated land resources that they are forced to let idle is of benefit to both sides, and is something that is most welcome to both sides.

Second, there is reduction of expenditure.

In an agricultural society, mankind's food is mainly grain. Following the development of the society's economy, the proportion of animal products in the food makeup gradually grows. Before 1910 people's direct use of grain for food accounted for more than 85 percent of the world's total output of grain; in 1961 the proportion fell to 63 percent; and in 1971 the proportion fell to 59 percent. Now, in the food makeup of the developed countries, animal-type foodstuffs are made primary, and the great majority of grain is feed for livestock and poultry; grain provided directly for people's food is less than one-fourth.

In line with Henan's present standard of living, generally speaking, a per-capita share of 250 kilograms of grain can satisfy the amount of grain needed for people's direct use as food, for seeds, and for industry (only a little more than eight kilograms per capita). The production of grain over this amount is mainly used for livestock and poultry feed. Therefore, the so-called reduction of expenditure is mainly a saving on grain consumption, with a saving on animal-type foodstuffs production as the main part.

There are three main ways to save grain in the production of animal-type foodstuffs:

1. Raise fine varieties of livestock and poultry for foodstuffs, scientifically compound feed, and improve the feed changeover rate.



Compared with the early part of this century, to produce now each kilogram of eggs from using more than 4 kilograms of feed, the figure has fallen to 1.5 kilograms; to produce each kilogram of grain, from using more than 6 kilograms of feed, the figure has been reduced to less than 3 kilograms.

However, from a look at Henan we see that animal-type foodstuffs production is still in a relatively low position. Take, for example, Henan's main animal-type product, pork. Modern science and technology has made the number of pigs removed from inventory rise to 160 to 200 percent, but in Henan it is less than 60 percent; for every pig on hand the annual output of meat is more than 110 to 160 kilograms, and to produce one kilogram of pork less than six kilograms of feed are consumed, but for Henan these two figures are respectively about 60 percent and 12 kilograms.

In 1987, in China as a whole, 77.6 percent of the pigs were withdrawn from inventory, higher than that for Henan by 22 percent. In China as a whole, on average each pig on hand produced 54 kilograms of meat, 11 kilograms more than in Henan. In these two aspects, if Henan could attain the average level for China as a whole, Henan's output of pork could rise from 664,000 to 800,000 tons; or, that is to say, one-fifth fewer pigs could be raised, saving more than 1.6 billion kilograms of feed.

## 2. Save grain by adjusting the animal-type structure.

Now, for every 100 kilograms of plant protein, there roughly can be produced various kinds of animal protein: chicken, 52.4 kilograms; eggs, 26 kilograms; fish, 16.3 kilograms; pork, 12.7 kilograms; and meat, 9.4 kilograms.

Because of the wide gap between feed and remuneration, countries and regions that have poor agricultural resources and insufficient grain supplies produce more chickens, eggs, fish, and other products in which remuneration for feed is high in order to save on the consumption of feed. For example, in Japan, by comparison with the situation 30 years ago, the proportion of beef to all meats has dropped to 15 percent from 52 percent, and the proportion of pork to all meats has risen from 8.6 percent to 34 percent.

Henan's current production of animal-type foodstuffs may be said to give little consideration to the question of livestock structure. For example, Henan's cultivated area is roughly the same as that of Shandong or Hebei, but the amount of large livestock raised by Henan is equal to the total of the two provinces, reaching 10.79 million head. In 1987 the two provinces produced 2.22 million tons of meat, while Henan only produced 800,000 tons. One of the important reasons for Henan's low meat output is many of the large livestock being raised. To be sure, at present the objective of raising large livestock, primarily cattle, is to use them as draft animals, but, proceeding from this need to use them as draft animals, there is certainly no need to raise so many. In the fifties the degree of mechanization in Henan's

agriculture was far from what it is now, and there was more cultivated land than there is now. At that time, in the entire province 7 million head of large livestock were raised. If we could lower the amount of feed for large livestock to the amount that it was in the early fifties, or make the amount equal to what it is now in Shandong or Hebei, then in one year Henan would save 2 to 3 billion kilograms of feed grain. By switching to raising more chickens and fish, we could double the amount of animal-type foodstuffs.

**Large Livestock and Meat Production in Henan and Nearby Provinces**

Province	Grain Per Capita (Kilograms)	Number of Head of Large Livestock for Which 500,000 Kilograms of Grain Are Used	Meat (Tons) Produced by 500,000 Kilograms of Grain
Hubei	453	75	24.7
Hebei	366.5	90	23.0
Shandong	426	79	19.0
Anhui	459	104	16.0
Shaanxi	320	144	16.1
Shanxi	262	191	14.4
Henan	370	170	13.6

From the above table it can be seen that the more head of large livestock that a province raises, the lower the amount of meat produced by 500,000 kilograms of grain.

## 3. Use feeds that substitute for grain.

On the same amount of land, planting other feeds can produce about one-third to one times higher nutrients than planting grain. Therefore, developed countries plant large amounts of feed corn, feed kaoliang, alfalfa, and other crops. We now still use a large amount of grain that should be supplied to people for food to feed livestock and poultry. This is uneconomical.

## Conclusion

Summing up what has been said above, we can come to this conclusion: Even if Henan's water and land resources are deficient, provided we do good work in reclaiming wasteland and in reducing expenditure, generally speaking, the problem of tight supply and demand in grain will not occur. Japan's practice also proves this point. At present Japan both produces and imports grain. Its per-capita grain is still about eight percent less than Henan's. However, under the premise of maintaining a balance in the supply and demand of grain, it produces much more animal-type foodstuffs than we do: per-capita meat production is 2.45 times that of Henan's; per-capita egg production is 3.18 times that of Henan's; and per-capita milk production is 73 times that of Henan's. All of this satisfies the greater part of Japan's needs. A fairly long time is needed before China's standard of living can catch up with that of Japan. We

can use our brains more in reclaiming wasteland and in reducing expenditure, and then it is highly likely that we will not be laden with anxieties about the fact that the contradiction between supply and demand in grain is difficult to mitigate.

### Henan Wheat Storage

40060059C Zhengzhou HENAN RIBAO in Chinese  
8 Aug 90 p 1

[Summary] As of the end of July, Henan Province had put 2.96 billion kilograms of wheat in storage, fulfilling the grain procurement task. This year the wheat area in Henan exceeds 73 million mu.

### Hubei Sorghum Area

40060059B Wuhan HUBEI NONGYE KEXUE  
in Chinese No 6, 5 Jun 90 p 8

[Summary] At present, the sorghum area in Hubei Province is 200,000 mu.

### Jiangsu Hog Procurement

40060059D Nanjing XINHUA RIBAO in Chinese  
8 Aug 90 p 1

[Summary] In the first half of 1990, the Jiangsu food department procured 3,961,200 hogs, a 27.85 percent increase over the same period in 1989; and sold 2,775,900, a 42.34 percent increase. At the end of June, there were 17,559,100 hogs in stock.

### Jiangxi Summer Harvest

40060058E Nanchang JIANGXI RIBAO in Chinese  
13 Jul 90 p 1

[Summary] In the first half of 1990, Jiangxi Province allocated 169 million yuan to support agriculture, an increase of 2 million yuan, or one percent over the same period in 1989. Summer grain output was 108,000 tons, a 14.3 percent increase over 1989; and rapeseed output was 371,000 tons, an 86.7 percent increase. The summer grain area totaled 24,889,600 mu, a 0.6 percent increase over 1989; and the cash crop area totaled 3,545,200 mu,

a 4.3 percent increase. At the end of June, the number of hogs in stock was 14,295,000, a 3.1 percent increase over the same period in 1989.

### Liaoning's Countryside Suffers From Drought

SK2308101290 Shenyang Liaoning Provincial Service  
in Mandarin 0930 GMT 22 Aug 90

[Summary] At the moment, some areas in the countryside of the province have been suffering from droughts in varying degrees; and cadres and the masses in these areas have already gone all out to provide disaster relief in order to minimize the losses. Recently, some townships and towns in Dalian, Yingkou, and other cities have not experienced any rainfall for about 30 days. In Wafangdian and Yingkou cities and in Gaixian County, crops on a vast area of farmland have become withered, and some plots are even unharvestable. According to statistics compiled on 18 August by the provincial agricultural and animal husbandry department, about 1.235 million mu of farmland in the province has been afflicted by drought.

### Yunnan Grain Procurement

40060058F Kunming YUNNAN RIBAO in Chinese  
20 Jul 90 p 1

[Summary] As of 10 July, Yunnan Province had put 144,880,000 kilograms of contracted grain in storage, an increase of 42,580,000 kilograms over the same period in 1989; and 112,610,000 kilograms of grain purchased at negotiated prices were put in storage, an increase of 17,220,000 kilograms. In addition, 51,600,000 kilograms of rapeseeds were put in storage, an increase of 36,630,000 kilograms over the same period in 1989.

### Zhejiang Tea Procurement, Exports

40060059A Beijing JINGJI CANKAO in Chinese  
23 Jul 90 p 1

[Summary] By the end of June, the Zhejiang Tea Export and Import Corporation procured 45,000 tons of tea, a 7.3 percent increase over the same period in 1989; and tea exports earned \$52,880,000 in foreign exchange, an 11 percent increase.

### State Education Commission Urges Rectification of Adult Education

90CM0304A Beijing ZHONGGUO JIAOYU BAO  
[CHINA'S EDUCATION] in Chinese 21 Jun 90 p 1

[Unattributed Article: "State Education Commission Urges Improvement and Rectification of Institutions of Higher Learning for Adults: University Management, Fees and Tuition, and Granting of Diplomas in Violation of Regulations Are To Be Firmly Corrected and Severely Disciplined"]

[Text] In the recently promulgated document "Some Notes on Improving and Rectifying General Institutions of Higher Learning for Adults" (hereafter called "Notes"), the State Education Commission points out that currently there are some problems with adult education handled by general colleges and universities (hereafter called universities). The "Notes" calls for the immediate resolution and correction of these problems. Even if a certain amount of chaos results, we must carry out improvement and rectification.

The "Notes" first recognizes the achievements in adult universities since the Party's Third Plenary Session of the 11th CPC Central Committee. At the same time it points out that the guiding ideology of some universities is not sufficiently correct, management is slack, and quality is declining. A few schools have the problem of the "three disorders" phenomenon, where programs are carelessly run, fees are charged arbitrarily, and diplomas are granted at random. Certain schools violate state policies and decrees as they operate, which has a negative social effect. The "Notes" emphasizes that improvement and rectification should focus on the problems which exist in formal education.

The "Notes" requires educational administrative departments of all provinces, autonomous regions, municipalities, cities with independent economic decision-making authority, and ministries and commissions under the State Council to arrange to improve and rectify adult higher education, strengthen leadership, clarify requirements, set a schedule, and carry out the work step by step within their own sphere of responsibility.

After earnestly studying documents concerning improvement and rectification issued by the Central Committee, the State Council, and the State Education Commission and reaching a common understanding, universities should first carry out a self-evaluation in accordance with the pertinent policies, regulations, and decrees promulgated by the state. They should examine their ideology, scope of operations, quality, management, structure, and how the policies and regulations have been implemented. They must thoroughly investigate those mainly responsible for running programs carelessly, charging fees arbitrarily, granting diplomas at random, and violating laws and regulations, and bring a case against them. These cases must be investigated. Educational administrative departments should have

their subordinate schools inspect each other, and pay attention to reports from the society. Educational administrative departments are responsible for those universities which violate regulations in running universities, charging fees, and granting diplomas. These departments must charge those universities with resolutely correcting the problems in accordance with the rules, and should handle the cases seriously. Educational administrative departments are to submit written reports about existing regulation violations by subordinate schools and about how the situation is to be handled to the State Education Commission. The reports are to be categorized according to the type of university involved. For problems of a larger scope which possibly affect social stability, educational administrative departments should classify the type of problem and type of university, and immediately report their views on handling those problems to the State Education Commission. After approval from the State Education Commission, the problems will be tackled accordingly. Those primarily responsible for the problem of the "three disorders" will be disciplined in accordance with relevant stipulations. In cases where the law was violated, responsibility for the violation will be determined according to the law. In addition, programs which are too large or whose operating inputs are insufficient must replenish their faculty and management force in order to ensure the quality of their programs, and also must reduce or suspend enrollment. The progress and outcome of improvement and rectification of adult higher education must be inspected and accepted by relevant educational administrative departments of provinces, autonomous regions, municipalities, cities with independent economic decision-making authority, and ministries and commissions under the State Council. Departments must suspend enrollment in or cancel the credentials of adult education programs which do not meet the criteria. Problems in the universities uncovered through self-examination or reciprocal examination will be earnestly dealt with in accordance with regulations.

The "Notes" also requires that universities take adult education as a fundamental responsibility, and incorporate it into their overall strategy. These programs must be planned and managed in a unified way.

The overall planning and macromanagement of adult higher education must be strengthened so that its structure will be rational and its fields of study will meet demands; irrational management may be avoided this way.

Formal adult education must uphold quality standards, have stringent requirements, and base its scale of operations upon its faculty and management force. Correspondence and night schools must live up to their names and operate their programs in strict accordance with regulations, and organize well. Night schools will be limited to universities whose locations are convenient for commuting students. Individualized instruction for correspondence courses is the responsibility of the school running the program, and cannot be entrusted to

correspondence stations or other units. Both correspondence and night schools should concentrate on part-time education.

The size of enrollment for formal correspondence education must be strictly controlled. Universities under the control of provinces, autonomous regions, municipalities, or cities with independent economic decision-making authority which offer correspondence education may not enroll students or establish correspondence stations outside the areas where the universities are situated.

Informal educational programs should be run in order to meet the needs of economic and social development, and not in order to pursue profits. Universities should centralize management of informal education programs. Other second-grade organizations are prohibited from turning to society for student enrollment, and may not openly advertise for enrollment without the approval of the relevant educational administrative department of the province, autonomous region, municipality, or city with independent economic decision-making authority. The length of study may not exceed one year for full-time students and one-and-a-half years for part-time students. These programs must not be confused or linked with formal programs, and may offer no other diploma or certificate except for a "certificate of completion."

Fees for formal and informal adult education must be in strict observance of relevant regulations. Charges in excess of the standard amount or overcharges concocted under various pretexts are strictly prohibited.

### Great Achievements in Graduate Education

90CM0304B Beijing ZHONGGUO JIAOYU BAO  
[CHINA'S EDUCATION] in Chinese 26 Jun 90 p 1

[By Zhou Ling (0719,3781): "Degree Work, Graduate Education Have Achieved Gratifying Results"]

[Text] At the fourth session of the Course Evaluation Group of the National Academic Degree Committee which opened today this reporter learned that the academic degree system has developed continuously since its establishment 10 years ago, and our country has awarded more than 4,800 doctorate degrees, nearly 150,000 master's degrees, and over 1.8 million bachelor degrees.

According to a member of the National Academic Degree Committee, after 10 years of hard work, our country has established an academic degree system which covers all fields of study, has a sound organizational structure, and whose academic quality is accredited by the academic award system. Presently 238 organizations are accredited to confer doctorates, including 189 universities and 49 research institutes; there are a total of 1830 programs awarding doctorates in specialized disciplines, including 1501 college and university programs. There are 3798 doctoral advisors, 2786 of which are from colleges and universities. There are 545

units accredited to confer master's degrees, 396 of which are universities and the rest are research institutes. There are 6407 master's programs in various subjects, 5513 of which are run by universities. There are 561 colleges and universities accredited to run baccalaureate programs.

Over the past 10 years universities and scientific research organizations have offered doctorate and master's degrees in more than 600 disciplines, which, excluding the field of military science, includes the following 10 areas: philosophy, economics, law, education, literature, history, natural science, engineering, agronomy, and medicine. From among the specialized doctoral programs at 1501 colleges and universities, the state has selected 327 programs to be key disciplines, and has given them priority status and state support. As an experiment, the state established 33 graduate schools. At the same time, with the approval of the National Academic Degree Committee, universities, the Chinese Academy of Sciences, the Chinese Academy of Social Sciences, and some other institutions have conferred honorary doctorate degrees on 29 outstanding foreign scholars, scientists, well-known politicians, and social activists. Our country has thus taken initial steps to form a base for training graduate students. The base is characterized by a relatively strong advisory force, a firm scientific research base, and the ability to train highly-talented persons.

In the last 10 years, the academic degree system and graduate education have undergone reforms. According to the characteristics of different disciplines, enrollment of people with work experience has increased; there have been some pilot projects where those with work experience apply for and earn degrees; some fields of study have offered a second bachelor's degree, and so forth. At the same time, inspection and evaluation of the quality of degree programs has been underway, and a comprehensive management system for academic degrees has been established. Because of active international exchange and cooperation in the area of academic degree work, as well as scientific research on academic education, our degree work and graduate education have reached a new phase of independent and steady development.

### New Phase in Party Building Work in Colleges

90CM0304C Beijing ZHONGGUO JIAOYU BAO  
[CHINA'S EDUCATION] in Chinese 30 Jun 90 p 1

[By Zuo Chun Ming (1563 2504 2494): "Party Building Work in Universities Enters a New Phase"]

[Text] Presently leading comrades in universities, as well as leaders at all levels in the government, commonly recognize that the party must maintain its leadership and strengthen party building in colleges and universities. According to a person from a concerned department, in the past year the core leading role of party committees in universities has gained further acceptance and been

consolidated with the direct attention of the Party Central Committee and the direction and support from party committees of all levels. The once "desalinized" and weakened political and ideological education in universities is again taken seriously and has been strengthened. A new phase of concentrating on party building work in universities is gradually taking shape.

A conference in Beijing in April, which was jointly sponsored by the Organization Department and Propaganda Department of the Party Central Committee, and the State Educational Commission, was the first such conference since the founding of the People's Republic of China that was dedicated to special research on party building work in universities. At the conference, party secretaries from more than 100 universities reached the following consensus: As they reflect on last year's turmoil and face the new situation of reform and opening up and the acute struggle against bourgeois liberalism, socialist colleges and universities must operate smoothly, the party's leading role in universities must be assured, party leadership in universities must be improved and strengthened, and the building of party organizations in universities must be enhanced.

It was learned that presently all regions and departments have put party building work in universities on their agenda and have taken measures to implement the task. Yunnan Provincial Party Secretary Pu Chaozhu [2528 2600 2691] observed at the provincial conference on party building in universities that today's youth would become the backbone force governing the country in 10 to 20 years, and that party building in universities would directly affect whether these youth will be able to inherit and develop the proletarian revolutionary causes pioneered by the older generation. The Jiangsu provincial conference on party building in universities decided to establish a university work committee in charge of party building work and political and ideological education in the province's universities. They also decided that provincial party committee leaders would discuss the university work system at regular intervals, and stipulated that leaders from the provincial party committee and provincial government would each have regular contacts with universities. The Ministry of Agriculture, the Ministry of Metallurgical Industry, the Civil Aviation Administration of China, and other departments have also convened special sessions to discuss party building in universities. In regard to this issue, the Ministry of Agriculture has formulated the document entitled "Notes on Strengthening the Political and Ideological Education in Colleges and Universities Under the Ministry." Similarly, the China National Petroleum and Natural Gas Corporation has modified regulations concerning the university presidency responsibility system of the Petroleum Institute under the leadership of the party committee. Up to now, party committees in 19 provinces, municipalities, and autonomous regions, including Heilongjiang, Jilin, Liaoning, Shandong, Shanxi, Jiangsu, and Anhui, along with party committees in 16 ministries, including the Ministry of Energy

Resources, the Ministry of Railways, and the Ministry of Transportation, have already established or are in the process of establishing liaison relations between pertinent leaders and universities. This will help these universities strengthen and perfect party building work. Regional conferences on party building in universities have been held or will be held in the cities of Tianjin and Shanghai, the provinces of Jiangsu, Hebei, Jiangxi, Shandong, Fujian, and Yunnan, and the autonomous region of Inner Mongolia.

In carrying on party building work, all regions have paid special attention to building a leading body in the universities. Attention has been given to selecting those who have stood the test of serious political struggle and who have both political integrity and ability. The Shandong Provincial Party Committee revised the leading bodies in 29 of the province's universities and planned to raise the level of Marxist theory of university leaders through rotation training. Jiangsu Province has formulated the document entitled "Notes on Strengthening Party Building in Universities" to direct party building work in universities in the province. The preparatory group for the conference on university party building work in Shanxi Province established detailed regulations for managing the leading bodies and cadres in universities. Guangdong Province's University Work Committee organized a force to investigate seven issues, including building leading bodies at universities and party committee work on cadres building. The Committee also drafted work regulations for university party committees and party branches.

Every region, department, and university has grasped the importance of party building work and has focused on establishing a backbone group which has party members as the main body and includes faculty and student activists. Shandong Province has put forth five specific measures for strengthening the building of a backbone faculty group. These measures include establishing a training base for cadres doing university political work, arranging rotational training in the provincial party school for professors with party membership and for secretaries of general branch departments, and transferring some faculty members to student advisor positions. At the same time, multidimensional political and ideological education has brought vigor and vitality to universities. Jiangsu province has selected more than 400 large and medium enterprises, counties, and townships to serve as relatively stable bases where college students receive practical training. All universities in Zhejiang Province have set up after-hours party schools for students. In the provinces of Hubei and Shandong, 70 percent of universities have set up party schools. Over 60 universities in the Beijing region have set up their own after-hours party schools, which have attracted more than 10,000 students. Over 200 party lecture study groups and Marxism-Leninism research groups are actively operating on campuses in Beijing. Because of activities such as learning from Lei Feng [7191 6912] and ushering in the Asian Games, the ideology of young



faculty members and students at universities has shown really gratifying changes. In the past year a group of outstanding youths from all universities have joined the Chinese Communist Party.

### Discussion Sharpens Over Bureaucrat Profiteering

90CM0312A Hong Kong CHIUSHIH NIENTAI [THE NINETIES] in Chinese No 246, 1 Jul 90 pp 56-57

[Article by Lue Yang (3970 7122): "A Big Fight Has Broken Out in the CPC Politburo Over the Growing Intensity of Bureaucrat Profiteering"]

[Text] Although the mainland Chinese press was ordered by the central government to stop using the terms "opposition to bureaucrat profiteering" and "bureaucrat profiteering" in January 1990, hardly does one wave of bureaucrat profiteering subside before another arises.

### Export Licenses for Cement, Steel Plate, and Such Are Being Sold

Although senior CPC authorities have been indicating the need to purge and put an end to bureaucrat profiteering since the "4 June" incident in 1989, in order to quell people's resentment over bureaucratic corruption, profiteering, and graft among party and government leaders, bureaucrat profiteering has, in fact, not been stopped. Some examples of this follow.

Cement is one of Mainland China's staple export commodities, for which provincial-level foreign trade companies have jurisdiction over export ratification documents (licenses). Control of this was given in 1990 to hardware and minerals foreign trade companies, building materials foreign trade companies, and certain foreign trade companies that can make customs declarations at ports throughout the PRC. While export licenses for more than 3 million tons of cement had been issued in Guangdong, Guangxi, and Hebei provinces alone by May 1990, the more than 40 cement plants in these three provinces were capable of supplying, at best, less than 1 million tons of Nos. 500 and 600 cement for export. In order to keep these export licenses from ending up as waste paper, these provinces have been fighting to buy cement from other provinces, and then exporting it at a price of about \$40 a ton, from which they have been collecting \$3 to \$4 a ton in export license fees, while the factory price of cement has been pushed up from 160 yuan a ton in 1989 to 240 yuan a ton at present. One large cement plant in Shijiazhuang allowed 20,000 tons of cement to harden and be wasted rather than sell it to foreign trade companies. Its manager publicly swore that "this cement all belongs to the state. The most that can be accomplished by you foreign trade companies fighting with us is that everyone will get less bonuses."

While MOFERT [Ministry of Foreign Economic Relations and Trade] has stipulated that \$10 a ton must be paid to the state for steel export licenses, the Shanghai Hardware and Minerals Foreign Trade Company has received export licenses for 1 million tons of steel. It is

quite clear that export licenses can be used as negotiable securities. As export licenses are negotiable, foreign trade companies are bound to sell them even to localities that have no goods. For instance, Japan, Thailand, and Malaysia need the kind of steel plates necessary for building expressways, but only the Angang, Wugang, and Shougang steel mills make this steel in Mainland China. And, while those who issue export licenses sell them to foreign trade companies that can handle this kind of steel plates at export license fees of \$12 a ton, the domestic price of steel plates has been pushed up from 1,800 to 2,700 yuan a ton.

### Export Licenses Are the Equivalent of Hard Currency

Certain directors of a foreign trade group company in Shenzhen, which nominally deals in industrial chemicals, are all children of central government, regional military, or provincial-level cadres. Their "direct access" to the highest authorities has given them not only import-export licenses for chemical fertilizer, but also export licenses for pig iron, ferrosilicon, silicomanganese alloys, and grey and silk cloth. What can they do with export licenses and no goods? According to them, export licenses are the hardest of currencies. Most of their export licenses have clear values, with one for mirabilite being worth \$5 a ton, one for pig iron being worth \$10 a ton, one for grey cloth being worth \$0.15 to \$0.25 a meter, and one for silk cloth being worth \$1.50 to \$2 a yard. This company also handles "foreign trade contracting," from which it deducts 5-12 percent in premiums for licenses that it sells. Although imported air conditioners are an item strictly controlled by the State Council, certain privileged people have imported over \$6 million worth of duty-free air conditioning equipment (some of which was used), and then sold it at prices that were 150 percent higher than international market prices (at an exchange rate of 6 yuan per dollar), with one transaction converting \$6 million worth of goods into 90 million yuan. A son of Wang Zhen, the current vice president of the PRC, went on four tours of Europe, the United States, and Japan in 1989 and 1990, to negotiate imports of air conditioning equipment.

Profiteering exists not only in government-run foreign trade companies on Mainland China, but also in PRC-owned companies in Hong Kong. A colleague of mine who worked for over five years in a PRC-owned group, told me the following story: PRC bureaucrat profiteering exists from top to bottom, within and without, everywhere, and in many ways. A large PRC-owned group in Hong Kong acquired an import license from Guangdong Province for tens of thousands of tons of galvanized iron. Many Mainland Chinese enterprises are badly in need of galvanized iron—one factory in Chongqing, Sichuan, having shut down for almost with months, with more than 3,000 staff members and workers cursing for lack of this raw material. Although foreign trade companies in Sichuan had made repeated trips to Guangdong and Beijing to ask for help, they were unable to clinch a deal for galvanized iron because of the alarmingly high price. This group company in Hong Kong, which had an

import license, imported about 6,000 tons of second-grade galvanized iron from Japan and South Korea to the ports of Tianjin and Huangpu for \$380 a ton which, after several resales, ended up at a price of almost 3,600 yuan a ton. This means that an export license for galvanized iron can be sold for almost \$400 a ton at state bank list prices.

#### **Profiteering Exists on a Large Scale in Large Enterprises, and on a Small Scale in Small Ones**

Profiteering exists on an extraordinary scale in privileged companies, a large scale in large ones, and a small scale in small ones. Although certain subsidiary companies of a foreign trade group in Shenzhen have acquired through connections special licenses to import 30 tons of fruit a month, they are actually importing more than 50 tons of fruit a month. Navel oranges are being sold at a price of 500 yuan for a box of 88 and at a market price of 8 yuan apiece, and Australian pears for 13 yuan apiece. It has come to light that special import licenses are being resold at a price of 8,000 yuan per ton of fruit. Why is it that Sino-foreign joint ventures and wholly foreign-owned restaurants do not have supplies of imported fruit, which can be seen everywhere else in Shenzhen and Guangzhou? Why are special fruit import licenses being resold when MOFERT has repeatedly said that it would not grant them? This illustrates the extraordinary degree of openness to which bureaucrat profiteering has developed.

Certain private foreign buildings in Shenzhen, which were bought three or four years ago in the name of corporations, are now being resold one after another. The 800 square feet of foreign building space that was bought at that time for 30,000-40,000 yuan, is now being sold for 180,000 yuan. Moreover, it is being sold at the current price to one's own unit, and then being resold by the unit, to prevent it from being called graft by outsiders. In fact, how does this kind of business differ from graft? The son of a former deputy political commissar from the Jinan Military Region, who sold two foreign buildings for 390,000 yuan, openly vindicated himself as follows: How many people in Shenzhen foreign trade companies depend on wages for their livings? Where are there any honest officials? How many are genuine Bolsheviks?

#### **The Dispute in the Politburo**

A sharp dispute over whether "bureaucrat profiteering" should be opposed broke out again at the enlarged session of the CPC Politburo that was held in Beijing at the end of May 1990. According to insiders, most of the Politburo unexpectedly opposed the use of the term "bureaucratic profiteering."

The following dispute occurred at this session:

PRC Vice President Wang Zhen first spoke out approximately as follows: What is bureaucrat profiteering? As members of the Communist Party are the people's officials, is it the Communist Party that is profiteering? As I

can still walk and speak, who is it that is profiteering? Bureaucrat profiteering is a term that was invented by the handful of people who planned 1989's counterrevolutionary rebellion. The aim of their opposition to bureaucrat profiteering was to overthrow the Communist Party. What is bureaucrat profiteering? It was the comprador bourgeoisie, the four main KMT [Kuomintang] families, and the bourgeois monopoly capitalists who were guilty of bureaucrat profiteering. As all property has belonged to the people, the state machinery has belonged to the people, and Communist Party officials have come from the people since liberation, how can we be charged with bureaucrat profiteering?

Yao Yilin then spoke up approximately as follows: This term bureaucrat profiteering deserves attention in the context of opening up to the outside world and invigorating the economy. So-called "bureaucrat profiteering" depends on whether illegal profits per se are being made. Profiteering for departmental or local interests must not be opposed. It is very clear that people took advantage of opposition to bureaucrat profiteering in 1989 to slander both the state and the party.

Wang Zhen then broke in to say that this was cooked up by a handful of intellectuals in the garb of communists, who had a deep-seated hatred of the party and socialism, in order to incite the masses to oppose the leadership of the people's government by the Communist Party, on the pretext of opposing "bureaucrat profiteering."

Li Ruihuan, the member of the Standing Committee of the Politburo who is in charge of propaganda, then said that the PRC press was instructed in January 1990 to stop its unchecked use of the term "opposition to bureaucrat profiteering" until a consensus of opinion is reached.

Wan Li, NPC [National People's Congress] Standing Committee chairman, then dissented approximately as follows: I think that the issue is not simply over the use of the two words "bureaucrat profiteering." It is an established fact that all of the companies of various sizes in all provinces and municipalities that now have jurisdiction over the management of foreign trade belong to the government sector and are certainly run by government officials. Rather than quibbling over words, we must confront the issues of the social impact of government-run trade companies, the many problems that have certainly arisen in the crucial period of reform and opening up to the outside world, and the many senior and middle-level cadres and their children who are engaged in commerce and have a certain amount of special privileges, which are having a real social impact and making it hard for us to further open up to the outside world, reform, and develop. The dissatisfaction of the majority of people about these issues is understandable.

Wang Zhen then called Wan Li to account approximately as follows: "Bureaucrat profiteering" did not appear in 1990, but has been around for seven or eight

years. As I did not see you coming out to speak about it in 1989 when Zhao Ziyang was here, I cannot understand your sharp opposition to it now.

Whereupon Wan Li retorted approximately as follows: I have always had reservations about the families and children of those present at this meeting being in business. I thought that the resolution passed by the Politburo in 1989, that the families and children of Standing Committee members should stop engaging in commerce, was too narrow in scope, and should have been extended to include the families and children of the members of all central government ministries and commissions and provincial and municipal party, government, and military leaders. This should be specially stipulated to deal with our current special conditions.

Wan Li continued approximately as follows: Although there are those who oppose me, say that the families and children of the leaders are people too, and ask why they should not engage in commerce, I have continued to persist in my stand. The way in which this issue is

resolved will play a decisive role in eliminating corruption and bureaucracy within the party, and in implementing the proposition of the Central Committee and Comrade Deng Xiaoping that "our overriding task is to maintain stability."

Wang Zhen then jumped up, pointed at Wan Li, and shouted approximately as follows: Instead of you criticizing me, I want to ask you about your party spirit and stand during the counterrevolutionary rebellion in 1989.

Whereupon Wan Li retorted approximately as follows: I answer to the Central Committee for my party spirit and stand, not to you Mr. Wang.

General Secretary Jiang Zemin never took an official stand on the issue at this meeting, merely saying that it was of primary importance to consider the motivating impact of "bureaucrat profiteering" on economic reform and social development.

It was revealed that, when Wang Zhen complained about Wan Li to Deng Xiaoping after the meeting, he was told to mind to his vice presidential duties and play less of a role in Politburo sessions.

### Admiral Recounts First Naval Ocean Navigation Trip

90CM0206A Beijing JIANCHUAN ZHISHI [NAVAL AND MERCHANT SHIPS] in Chinese No 4, 8 Apr 90 pp 2-3

[Article by Vice Admiral Zhang Xusan (1728 1645 0005), deputy commander and chief of staff of the Navy: "First Ocean Long Distance Training Trip" (conclusion); Part I published in JPRS-CAR-90-057, 31 July 1990]

[Text] On 23 May the fleet passed through La-ke-la-ta [2139 0344 2139 0100] Strait and the western end of Mindoro Strait. At 2416 hours we discovered a sunken ship at Huangyan Island [Scarborough Reef]. Viewed from a distance it looked like a ship moving north along the horizon. Our two ships, the 950 and the 832, kept a distance from the island while proceeding slowly forward. A single sunken ship was clearly visible, which did not match the four ships that were at this spot according to the charts. Whitecaps broke over the hull of the sunken ship and showed up clearly against the dark color of the surrounding sea.

On 25 May, the fleet passed through Balintang Channel. Before entering the channel, I carefully read over the navigation manuals. These manuals reported that thunderstorms frequently occurred in this channel, and that is, in fact, what we encountered. As the fleet passed through the channel, thick clouds hung low, thunder roared, lightning flashed, the wind howled, the ships were buffeted by large waves and strong currents, and visibility was very poor. I could not sleep that night, but kept getting up to check the condition of the seas. I ordered the two ships to slow down and feel their way forward. We finally made it safely through the channel on the 26th and entered the Western Pacific.

As soon as we entered the Western Pacific, the two ships began to pitch and roll. There was no heavy wind blowing at the time, but long, broad waves closed in on the ships like small hills, creating sharp arcs and creating whirlpools which threatened to swallow up the ships if they neared the middle of one. This kind of wave can have a length of 200 meters and move at speeds of up to 70 nautical miles per hour. The 950 managed to resupply the 832 with water despite the waves.

I took advantage of the proximity of the ships to jump over to the 832 to visit the crew and to encourage everyone to struggle bravely against the waves. Because the 832 was of lesser tonnage, many worried that it would not be able to withstand the wind and waves of the Pacific Ocean, and that it would capsize. Someone said, "It's risky to go on a long-range voyage with such a small ship." Some people on the ship slept with their life jackets on, ready to jump ship at a moment's notice. After I went aboard the 832, everyone immediately took heart. They worked together to get through their difficult situation and conquer the swells of the Pacific Ocean.

On the 27th, the fleet took advantage of an improvement in the weather to sail toward Iwo Jima. As we approached the point where we were to turn for Iwo Jima, we received notice that an earthquake in the Japan Sea had created a tsunami. I had already known that a tsunami, a very unique phenomenon, was a wall of seawater that arose suddenly. Such waves are tall, steep, and violent. They move as fast as 500 nautical miles per hour and can cross the Pacific Ocean in a day. As a tsunami approaches, the sea is not particularly rough, and the sea level sometimes even drops slightly, but in the blink of an eye, a tremendous wave sweeps in and destroys everything in its path. Tsunamis have caused countless disasters throughout history. I immediately ordered the fleet to request instructions from the Navy's leadership organs, and we changed our original plans to enter the Japan Sea via Tsugaru Strait.

At 0023 hours on the 29th, the fleet switched to a northerly course. From a distance, we could see the glare of lights on Iwo Jima radiating over the horizon, and we could also see the silhouette of the island. At dawn, foreign aircraft flew back and forth on reconnaissance missions. The emblems on their wings were clearly visible. When the two ships sailed to Nishino Shinto, leadership organs in the Navy radioed approval of our change of course. The two ships then changed course to 285 degrees at 1730 hours and sailed directly for Osumi Strait.

On 30 May, the fleet suddenly encountered a temperate-zone cyclone east of the strait. A violent squall broke out. Gusts reached force 8 or 9, the waves were over five meters, and barometric pressure dropped precipitously. From the bridge I often saw the 832 disappear in a trough. The wind and waves seemed ready to swallow the 832 in a single bite. The hull rolled and pitched at angles greater than 35 degrees, while the bow was sometimes buried by a giant wave, sometimes tossed high in the air by another, and the propellers in the stern would slap at thin air. "Tossing waves, crashing whitecaps, and a light boat determine life and death in a fleeting instant." I concentrated on remaining calm, and used an intercom to command the 832 from my position on the 950. I urged them to remain calm, reminded them not to turn the ship too sharply, to remain constantly in control of the ship's speed and direction, and not to allow a moment of paralysis or carelessness. In order to avoid entering into the center of the cyclone while in the shipping lanes in the strait, at dusk I decisively ordered the two ships to change direction and proceed slowly forward in the direction the waves were traveling. We struggled against the cyclone for 20 hours, and no one slept all night. On the afternoon of the 30th, the satellite weather map indicated that the center of the cyclone had already passed. The wind dropped somewhat, and the fleet changed course to sail westward. We passed through Osumi Strait on 1 June.

The skies cleared up, the water in the navigation channel was deep, islands slid by off port and starboard, and ocean-going vessels churned by in either direction. The

trainees busied themselves sketching and comparing topographical maps and noting the position of coastal markers. The Liuhuang Islands [Sulfur Islands] here still had dense smoke and a strong odor of sulfur, just as the name suggested. We exited the strait at dusk and sailed for Zhoushan. On the afternoon of 2 June, we approached another temperate-zone cyclone that buffeted us with wind and rain. Because we had already dealt with another temperate-zone cyclone in the Osumi Strait, we got through the second one with ease. The 950 anchored at 1840 hours at Dongtingshan berth area, and the 832 used its radar navigation system to sail into Xiachimen and anchor at Yuanshan berth area. In the early morning hours of 3 June, the fleet entered the harbor and anchored at 0847 hours in the Dinghai berth area. The base commander came aboard to visit the trainees and the crew. We then spent several days in Zhoushan carrying out training to familiarize ourselves with the sea area, navigation passages, and waterways. We summed up our experiences up to that point and resupplied.

At 0753 hours on 7 June, the two ships lifted anchor, left the harbor via Xiachimen, and continued south along the coast. The 832 went to Sandu while the 950 anchored that night at Dachen berth area. At 0719 hours on 8 June, we continued on our way south, anchoring at 1614 hours at Shacheng. The two ships reunited on the 9th outside Sandu and passed through the Taiwan Strait. As we passed through the strait, the trainees mostly determined the position of markers and worked on their sea charts. We passed Shipai Shanjiao on the 10th, Chuan dao (at the mouth of the Pearl River) on the morning of the 11th, and finally returned to the outer harbor of Zhanjiang where we anchored at 1512 hours on the 11th. We carried out a thorough summary of our experiences and did evaluations. On 14 June, the first long-distance sea voyage came to a victorious conclusion.

#### **New Ground Broken in the History of Marine Navigation**

The leadership organs of the Navy organized its ship cadres to carry out a long-distance journey for training in maritime navigation for the first time. In so doing, they broke new ground in the history of Chinese maritime navigation, as well as in the history of the PLA Navy's maritime navigation. This is of practical and historical significance for the construction of China's Navy.

First, every man who participated in the training familiarized himself with the proper procedures for navigation among the reefs of the Spratly Islands, navigational methods in the Western Pacific, and coastal navigation in the region south of Zhoushan. They continuously worked on their sea charts, studied the islands, barriers, navigational markers, weather, sea conditions, water depth, direction of currents, strength of currents, and other such geographical, hydrological, and meteorological conditions as they encountered. They learned how to use various points of reference to fix position, and how to improve the accuracy of their position readings in

different regions. They also learned how to use satellite weather maps to supplement forecasts for their own ship. Everyone collected vivid impressions of and collected valuable data on the windless areas near the equator, the lighted buoys of Zengmu Ansha, the sunken ship at Huangyan Island, the thunderstorms of the Balintang Channel, conditions at Nishino Shinto the odor of sulfur at Osumi Strait, the way temperate-zone cyclones form and change, and so forth. They laid the foundation for future long distance voyages. At the same time, this training exercise in long-distance maritime navigation provided courses in maritime geography, foreign military intelligence, and case histories of naval battles. The content was fresh and the learning took place on the spot. These activities proved very effective in raising the navigational skills and tactical mastery of the ship captains and chief navigators.

Second, during this long-distance training exercise, the trainees familiarized themselves with the apparent motion of celestial bodies in different regions, and attained a better grasp of theoretical knowledge. They took astrometric readings of ship position 1,425 times, determined the ship's position 1,049 times by measuring the movement of the sun, increased the speed at which they were able to take astronomical readings, improved the accuracy of their position readings, and used celestial navigation to bolster their confidence as they navigated the seas. They determined position 3,300 times by means of a loran-C fix, familiarized themselves with determining their station at different times, regions, and distances, and learned how to distinguish between sky and ground waves. They worked out a method to eliminate or lessen enveloping discrepancy [zonghe baoluo 4844 0678 0545 4820], gained a basic understanding of the points of tangency between sky and ground waves, and increased the accuracy of their radio position readings. The trainee navigation cadres on the Y-832 learned how to do experimental position readings with the medium/long distance type-I semiautomatic loran-C radio position meter, and satisfied design specifications for accuracy. Most of the ship commanders and navigation cadres used computer programs which they had written themselves to figure out problems involving celestial and radio navigation as well as how to avoid collisions using radar. In so doing, they greatly increased the speed of their computations while cutting down on errors. The navigational skills of the many ship cadres were improved, and a group of key personnel for carrying out future long-distance voyages was trained.

This long-distance exercise demonstrated that sea charts published in China are good enough for use on long-distance voyages. The main navigational instruments are also reliable. The satellite navigation receiver functioned continuously and well, and the satellite weather maps performed excellently. These materials and equipment effectively assured smooth completion of the long distance voyage, and they laid down a foundation for future long-distance voyages.



For the great majority of us comrades, this was our first experience with training in long-distance maritime navigation. The heat, lack of water, tossing about, and tension made life at sea hard, and toughened us commanders as well as the rank-and-file cadres and sailors. During the course of the 6,000-nautical-mile voyage the two ships established procedures for refueling and taking on water. We carried out vertical and side-by-side resupply operations seven times. The fleet spotted 146 military vessels and 20 aircraft from foreign countries, and repaired 95 relatively major breakdowns. The two ships made great improvements in ship handling, professional knowledge, familiarity with the sea, and military conduct. Many comrades aboard the ships told me that during long-distance navigation training, they had opportunities to study theory while being drilled in the actual handling of a ship. They said that personnel, energy, and time were used intensively, that the results of the training were clearly visible because it had broadened people's horizons, deepened their knowledge, tested their strength of purpose, honed their skills, and bolstered their confidence. You could say that the open sea is a big classroom for Navy cadres. Training in long-distance maritime navigation can toughen and test all cadres. It is a good way for the Navy to cultivate active cadres and train sailors, and it is an effective way to improve the organizational, leadership, professional, and long-distance navigating skills of cadres. It does a lot to raise the revolutionary spirit, knowledge, and professionalism of Navy cadres.

Although the Navy's first long-distance maritime navigation training voyage has come to an end, the 30 days and nights at sea will remain forever in our memories, and we will always look back upon the expedition with fondness.

### Hard Life in Border Trenches

90P30070A Chengdu SICHUAN HUABAO [SICHUAN PICTORIAL] in Chinese No 4, Jul 90 pp 26-27

[Article by Zhu Zingyu (2612 5281 1342): "Frontier Eulogy"]

[Text] Lao Shan is an ordinary peak, more than 1,400 meters in elevation, on the southeast border of Yunnan Province. Although it lacks eye-catching scenery and has no ancient historic sites left for later generations, nonetheless, on this bit of earth a large group of China's ardent sons and daughters gave their blood and lives in a glorious hymn of protecting the border and repelling aggression. Because of this, Lao Shan became a hot spot upon which world attention was focused.

Many Sichuanese officers and soldiers are active on this bit of hot land; we present here pictures of the life of a few groups of Sichuan's sons and daughters participating in the front-line struggle.

### Life in the Trench Shelters

Frontline officers and men spend the entire year in dark and damp, small and narrow trench shelters. In these shelters, water often accumulates to knee depth, there is no electricity, mosquitos bite and sting, and many soldiers fall ill with arthritis, rheumatism, as well as "crotch-rot disease." The soldiers have great difficulty obtaining water to drink or use; bathing as infrequently as every week or two is difficult. Resupply of water, ammunition, and other provisions is wholly dependent on Army workers climbing 396 high, steep stairs, overcoming numerous obstacles, and crossing many kilometers of minefields to go to the rear and haul supplies back.

### The Contribution of Sichuan's Officers and Men

On the front lines, the soldiers' favorite saying is "duty to the nation is as weighty as a mountain; personal interests are as light as dust." During the war, even though many of the officers' and soldiers' family members suffered and died of illness, hometowns suffered calamities, girlfriends and wives terminated their relationships, and families had economic difficulties, and so forth, nonetheless, they viewed the interests of the country and the people as overriding, and quietly endured their individual sacrifices and sufferings. They held fast to their positions, bravely prosecuted the war, and rendered their homeland just service. Amid the struggle there emerged a great number of Sichuanese heroes: the top mine remover Yang Qinghua; the hero, in the mold of Wang Cheng, Wu Shian; the dauntless fighter Chen Fengbai; the crack shot Li Jiajun; and the exemplary political officer Yang Qunyi... All are outstanding representatives of Lao Shan's officers and men; all are outstanding sons and daughters of Sichuan.

### The Understanding of the Home Front

On the bloody and fiery battlefield, the most important thing to a soldier is the understanding and solicitude of the hometown people: to hear a melody of Sichuan Opera or comic opera, to drink a few sips of hometown "Five Grain Juice" or "Huzhou Old Cellar," or to look upon a few photographs that reflect the new face of Sichuan. Upon receiving care packages and letters from home, the soldiers are all deliriously happy and excited. "Soldiers protect the people; the people understand the soldiers." In these few years, Chengdu, Chongqing, Neijiang, Leshan, Deyang, Mianyang, Nanchong, and other places one after another have formed support groups, delivering warmth to the hearts of the frontline officers and men. Sympathetic letters and care packages from all Sichuan speed one after another to Lao Shan. The deep feeling and kind thoughts of the hometown people encourage the officers and men of Sichuan to risk their lives and bravely struggle for the Republic.

## CENTRAL-SOUTH REGION

**Guangzhou Rejects Report on Clean Government***HK0208072090 Hong Kong TA KUNG PAO in Chinese  
31 Jul 90 p 2*

["Special dispatch": "Guangzhou People's Congress Standing Committee Vetoes Supervision Bureau Chief's Report on Building a Clean and Honest Government"]

[Text] Guangzhou, 30 Jul (TA KUNG PAO)—A couple of days ago, the Standing Committee of Guangzhou Municipal People's Congress vetoed the report submitted by Guangzhou Supervision Bureau Chief Li Fuzhen [2621 4395 4394] on the work of departments under the municipal government in building a clean and honest government. In his report, Li briefed on the efforts since last year in launching the drive of supervising the building of a clean and honest government and punishing corruption in Guangzhou. Concerning the work of departments under the municipal government in building a clean and honest government, he held that under the supervision of the municipal party committee and the municipal People's Congress and with the joint efforts of various departments, a great deal of work has been done and fairly good results achieved in screening and rectifying companies; in investigating problems concerning leading cadres' housing, cars, and visits to foreign countries; in dealing with cases of violating the law and discipline; in strictly forbidding the practice of entertaining guests and giving gifts; and in improving the working style of governmental organs. However, he evaded existing problems in his report which aroused dissatisfaction among members of the Standing Committee of the People's Congress. Some members of the Standing Committee pointed out that the building of a clean and honest government is, in fact, of a high degree of difficulty and has met a lot of obstructions. Some of the major and important cases cannot be concluded after stalling for a long time with a lot of pleading from many sides. In addition, there are plenty of such people who commit crimes in spite of efforts to build a clean and honest government. Instead of adopting Li Fuzhen's report after he submitted it, the Standing Committee of the municipal People's Congress asked him to put into the report the existing problems and difficulties encountered in the process of building a clean and honest government.

## NORTHEAST REGION

**Liaoning Cites Achievements in Party Building***SK0208021790 Shenyang LIAONING RIBAO  
in Chinese 30 Jun 90 p 1*

[Text] Since the Fourth Plenary Session of the 13th party Central Committee, party organizations at various levels throughout the province have concentrated attention on party building, thus effectively ensuring and promoting

the healthy development of reform, opening up, and socialist modernization of the province.

After the Fourth Plenary Session of the 13th party Central Committee, party organizations at various levels throughout the province enhanced the sense of need to handle party affairs and adopted practical steps and effective measures to strengthen party building. The provincial party committee attached great importance to party building. By holding the provincial party building conference, meeting to commend advanced grassroots party organizations and outstanding Communist Party members, the meeting of the secretaries of city party committees, and the party building study session participated in by principal provincial and city leaders, and by organizing large-scale investigations on party building at the provincial, city, and county levels, it focused on studying and resolving the issues concerning strengthening of party building, and formulated opinions, systems, and regulations for improving the party's levels in ideology, theory, organization, and work styles. Party committees at various levels throughout the province have emphasized party building and have encouraged the entire party to attend to party building, thus creating a gratifying situation in party building.

To ensure the advanced nature and purity of the party, party organizations in various localities throughout the province have conducted democratic appraisals of party members in group after group at different times since last year. Through democratic appraisals, they conducted extensive and in-depth education of the entire party on adhering to the four cardinal principles, opposing bourgeois liberalization, and upholding the standards for party members and being qualified Communist Party members. So far, 83 percent of the total party members of the province have participated in the democratic appraisals, and 25,442 unqualified members have been dealt with.

Party organizations at various levels throughout the province regarded improvement of party style, efforts to maintain honest official duty performance, and struggle against corruption as the major tasks concerning the life and death of the party, carried them out, and achieved notable results. In the past five years, the province investigated and handled 42,501 discipline breaches within the party, punished 24,672 party members who had violated discipline, and expelled a number of corrupt and degenerated elements. The provincial party committee and government made a "decision on carrying out nine practical jobs in the near future for punishing corruption and maintaining honest official duty performance," and all cities also worked out systems and regulations in line with specific local conditions for correcting party style and maintaining honesty.

Party organizations at various levels throughout the province have logged 19.1 million party-member training sessions, rotational training sessions for party members, and advanced study classes at party schools over the past few years. More than 80 percent of the

party members of the province have attended at least one training session a year. While strengthening efforts to improve the party schools at and above the county level, the province has also actively established a number of spare-time party schools in enterprises, towns and townships, schools of higher learning, government offices, and neighborhoods. So far, 80 percent of the large and medium-sized enterprises, 98 percent of the towns and townships, 65 percent of the schools of higher learning, and some government offices and neighborhoods of the province have established grass-roots party schools.

To suit the new situation in reform and opening up, party organizations at various levels have also actively explored new ways to develop the role of party members. They carried out activities of various forms, such as "responsible areas for party members," "making contributions," "emulation in attaining goals," "party-populace joint group for achieving affluence," "management by objective of the role of party members," and "three devotions of party members," thus providing favorable conditions for party members to fully develop their leading and exemplary role.

### **Liaoning Increases Party Membership**

SK0208093890 *Shenyang LIAONING RIBAO*  
in Chinese 1 Jul 90 p 1

[Excerpt] Our province has unceasingly developed and expanded the party contingents. By the end of 1989, the province had a total of 2.52 million party members, an increase of nearly 13 times over 1951.

In the ranks of party members, the number of workers have increased continuously. In 1989, the proportion of workers in the ranks of party members increased by 2.24 percentage points over 1951, which was 14.7 times that of the 1951 figure. In the ranks of party members, the proportion of intellectuals has also increased with each passing day. At present, the number of party members engaging in all sorts of specialized technical work has accounted for 18.3 percent of the total number of party members in the whole province. The proportion of female and minority party members in the party-member ranks has also increased. By the end of 1989, the number of female party members increased by 27 times over the early period of the founding of the country. The proportion of female party members in the province's total number of party members rose from 9.1 percent in 1951 to 18.4 percent. The number of minority party members rose by 15 times over the early period of the founding of the country and their proportion in the ranks of party members rose from 3.8 percent in 1954 to 8.7 percent in 1989.

The educational level of the ranks of party members has also been greatly enhanced.

The unceasing development of the ranks of party members has guaranteed the party's leadership over socialist

modernization construction, reform, and opening up and the implementation of the party's line, principles, and policies.

In 1989, the entire province recruited 20,448 industrial workers into the party, accounting for 36 percent of the total number of party members the province recruited during the year. In addition, 195,189 industrial workers have submitted their applications for party membership to party organizations. They are striving for joining the party organizations at an early date with their concrete deeds. [passage omitted]

### **Heilongjiang Conference on Peasants' Burden Ends**

SK2807041990 *Harbin Heilongjiang Provincial Service*  
in Mandarin 2100 GMT 26 Jul 90

[Text] At the provincial conference on managing the work on the burden of peasants which ended on 26 July, Vice Governor Tian Fengshan stressed that it is necessary to use all legal means to implement the state and local regulations on reducing the burden of peasants in places where needed and to realistically change the current situation in which laws are not observed and strictly enforced.

Vice Governor Tian Fengshan pointed out that our province still has many problems in the work of reducing the burden of peasants. First of all, some leading cadres have failed to pay full attention to this work and, for this reason, failed to grasp it effectively. According to investigations, during the last four years the increase in average per capita burden of peasants was much greater than the increase in their average per capita income, which greatly exceeded the ability of peasants to withstand economic pressure. Second, the situation in which laws are not observed and regulations are not followed is quite common. Third, the system of managing the burden of peasants is not perfect and the management departments have difficulty in exercising their duties and carrying out their responsibilities. Reducing the burden of peasants is not only an economic issue but also a social and political issue. Leaders at all levels should proceed from the fundamental interests of the party, the country, and the people and realistically consider reducing the burden of peasants as a major principle for their work and should grasp it firmly and well.

### **Heilongjiang Holds United Front Work Conference**

SK3107095590 *Harbin Heilongjiang Provincial Service*  
in Mandarin 2100 GMT 30 Jul 90

[Text] The four-day provincial united front work conference ended at the (Heping) Assembly Hall of Harbin on 30 July.

The basic requirements for the province's united front work in the foreseeable future, as set forth at the conference, are to emancipate the minds, expand the scale of

united front work, surmount difficulties, firmly attend to the implementation of the guidelines of the national united front work conference, and promote the province's united front work.

The united front work conference, sponsored by the provincial party committee this time, is an important meeting in the history of the provincial united front. This conference was aimed at upgrading awareness and dealing with concrete matters relating to the united front work. During the conference, the participants relayed and studied the important speech made by Comrade Jiang Zemin at the national united front work conference and the CPC Central Committee's circular on strengthening united front work, and heard the important speech made by Comrade Sun Weiben on behalf of the provincial party committee. In line with reality, the comrades participating in the conference conscientiously discussed these important speeches and the circular.

They unanimously maintained: through this conference, we upgrade our awareness, define the tasks, and strengthen the sense of responsibility and the sense of urgency for attending to the united front work. The requirements and arrangements for united front work as set forth by the provincial party committee fully embody the guidelines of the CPC Central Committee's circular, completely tally with our province's reality, and are of strong operability in the united front work.

Zhou Wenhua, deputy secretary of the provincial party committee, made a summing-up speech at the closing ceremony on the afternoon of 30 July.

He stressed that responsible leaders of party committees should take the lead in implementing the guidelines of the national united front work conference. The united front work departments at various levels should assume responsibility for the implementation. All party and government departments should work in close cooperation with [words indistinct] to attend to the implementation.

He said that united front work is a key component part of party work and is related to various party and government departments and the work of various spheres. So, the party as a whole should make concerted efforts to complete the work. All party and government departments should carry forward the fine tradition of the entire party paying attention to united front work, and work closely with the departments in charge of united front work under party committees to actively attend to the work. The requirements for united front work, as set forth by Comrade Jiang Zemin and the provincial party committee, are related to the work of the People's Congresses, the Chinese People's Political Consultative Conference organizations, the Organization Departments and the Propaganda Departments under the party committees, party schools, departments concerned under the governments, and judicial departments. Thus, leading bodies of these departments should conscientiously study and set forth plans and measures for

conducting the united front work according to the requirements of the CPC Central Committee and the provincial party committee so as to realistically achieve the work under the new situation.

Wang Haiyan, deputy secretary of the provincial party committee, made a speech on the issues of how to attend to the work of selecting and employing nonparty personages, to help democratic parties build their leading bodies and to build reserve cadre contingents.

Wang Zhao, Qi Guiyuan, Zhang Xiangling, and Du Xianzhong attended the closing ceremony.

### Heilongjiang To Elect Local Deputies

*SK1308130190 Harbin Heilongjiang Provincial Service in Mandarin 0900 GMT 11 Aug 90*

[Text] Our province has been in full swing in holding the end-of-term elections of deputies at county and township levels. So far, 41 counties and districts under cities, including Suileng, Anda, and Hulin, have begun to hold their elections.

Our province has extensively publicized the electoral affairs by formulating specific work plans in line with the spirit of the provincial work conference on the end-of-term election and the actual situation in local areas. Organization departments in various localities have examined the leading bodies of counties, districts under cities, townships, and towns. The work of examining the leading bodies of counties and districts under cities in the prefectures of Heihe and Suihua has been accomplished and the work in this regard in other prefectures is being carried out to lay a foundation for the smooth progress in the elections.

In holding the end-of-term elections, various localities throughout the province have brought democracy into full play and done the work in line with the law. Some townships and towns in Suihua Prefecture have fixed the number of voters who reach the electoral age by taking advantage of the national census. The unreasonable division of some electoral districts and the excessively large ones have been readjusted in a timely manner.

## NORTHWEST REGION

### Management of Religious Activities, Stability of Xinjiang

*90CM0211A Urumqi XINJIANG SHEHUI KEXUE [SOCIAL SCIENCES IN XINJIANG] in Chinese No 2, 15 Apr 90 pp 20-27*

[Article by Wang Wenheng (3769 2429 5899), Xinjiang-Uyghur Autonomous Region Religious Affairs Bureau: "Carry Out Religious Work, Safeguard Social Stability"]

[Text] The Xinjiang-Uyghur Autonomous Region is a multi-ethnic, multi-religion region. A dozen minority nationalities, including Uyghurs, Kazakhs, Muslims,

Kirghiz, Tajiks, Tatars, Uzbeks, Dongxiang, Salars, Bonans—nearly 8 million people—are basically all adherents of Islam. Lamaists number about 130,000 and are primarily Mongols and a few Tibetans. The nationality and mass nature of these two religions are very clear. In addition, a few Han Chinese are adherents of Buddhism, Protestantism, and Catholicism. A few Russians are Eastern Orthodox.

Xinjiang is located on the northwest border of the ancestral land. The territory is vast, resources are abundant, and its strategic place in the socialist modernization of the ancestral land is very important. National unity, unity of the people, and unity of the nationalities within the country are a basic guarantee of the ultimate victory of our socialist enterprise. Social stability has very important significance in Xinjiang and constantly increasing the unity of nationality groups is of crucial importance at any time. Nothing will succeed in Xinjiang without nationality unity and social stability. Thus, all work should proceed from a general situation of promoting nationality unity and social stability to ensure the smooth progress of socialist modernization.

Nationality and religion belong to two different historical spheres, but basically, in terms of a minority nationality that believes in one religion, the relationship between religion and nationality is very close. In the long developmental process of a religion, the voluminous traditional culture absorbed and assimilated historically profoundly permeates such areas as the literature, song, art, music, dance, sculpture, architecture, morality, mores, and customs of the nationality group who are its adherents. Religious consciousness frequently becomes the primary element of this nationality group's quality that directly affects their political, economic, and cultural development and to a certain degree influences various areas of society. Particularly worthy of note is that domestic and foreign hostile elements not only parade the flag of nationalities, but also that of religion in an attempt to destroy the unity of our ancestral land and of our nationality groups. For the above reasons, to promote the nationality unity and social stability of Xinjiang we must conscientiously do religion work and carefully handle problems in religion. To promote nationality unity and social stability, we feel that, proceeding from the actual situation in Xinjiang, there are three important links that should be stressed in religion work: One is upholding freedom of religion, second is improving administration and management of religion, and third is to mobilize fully the initiative of religious circles to serve socialism.

# I

Respecting and safeguarding freedom of religion is the fundamental policy of the Chinese Communist Party with regard to religion and is also an important national policy of our socialist country. Our Constitution clearly stipulates that "the citizens of the People's Republic of China have freedom of religious belief."

We should have a comprehensive understanding of freedom of religion. That is, freedom to believe in religion and freedom not to believe in religion; freedom to participate in religious activity, and freedom not to participate in religious activity. Our Constitution also clearly stipulates that "no state organ, social group, or individual may force citizens to believe in religion or not believe in religion or discriminate against citizens who believe in religion and citizens who do not believe in religion." This turns into law the party's fundamental policy with regard to religion and we must enforce it strictly.

In the past 40 years, Xinjiang's enforcement of the policy on freedom of religion can be divided into three periods: The first period was before 1957, when the comrades of the entire party were rather cautious and enforcing the policy on freedom of religion was good. The second period was after 1958 when the "leftist" thinking that appeared in the party was also somewhat reflected in the issue of religion. During the Cultural Revolution this "leftist" thinking reached its peak and the party's policy on freedom of religion was destroyed, temples were occupied, closed, or razed, scriptures were burned, religious functionaries were also criticized and denounced, normal religious life lost its guarantees and the religious feelings of the believing masses were severely suppressed. The appearance of this situation damaged the reputation of the party and state and the consolidation and development of nationality unity suffered a setback. The third period is since the Third Plenary Session of the 11th CPC Central Committee. Under the guidance of the correct line, bringing order out of chaos and criticizing "leftist" errors has put the party's leadership in religion work back on the correct track again.

In the past decade, observing the spirit of the directives of the party Central Committee and the State Council, Xinjiang's people's government and party committees at all levels have conscientiously implemented the party's policies on religion, restoring and guaranteeing the citizen's freedom of religion and the right to participate in normal religious activity, with evident results. These are:

1. We sensibly arranged for places for religious activity. In the region now there are over 17,100 Islamic mosques (and about 4,000 other places for activities), 36 Buddhist (Lamaist) temples, which are about one-third and two-thirds fewer, respectively, than in the early liberation period, but compared with before the Cultural Revolution are substantially more. The Protestants, Catholics, and the Eastern Orthodox have suitable churches and meeting places. Generally speaking, places of religious activity are sufficient for the needs of the normal religious activity of the broad believing masses. In addition, the government also takes very seriously the safeguarding of key temples and churches and has appropriated over 3.2 million yuan for maintenance expenses.

2. We supplied the necessary scriptures and books. For many years, over 800,000 volumes of Islamic books have been published and supplied domestically. This includes



about 200,000 volumes in Uyghur. There have been books for other religions as well. This has facilitated the reading of scriptures by the broad believing masses and patriotic religious functionaries.

3. We have taken seriously and supported religious study by religious functionaries. To increase the current religious functionaries' scriptural knowledge, on the basis demanded by them, the autonomous region's Islamic Society and the autonomous region's Buddhist Society have frequently held classes for advanced study. By 1989, about 1,000 persons had participated in advanced Islamic study classes, and about 150 persons had participated in advanced Buddhist study classes. Since the Xinjiang Islamic Seminary started by the autonomous region's Islamic Society opened in 1987, it has recruited students for the five-year curriculum according to plan and has trained high-level Islamic functionaries. In addition, religious groups at all levels have also adopted appropriate methods to train the needed religious successors in a planned way.

4. We have revived and established patriotic religious groups. Up to the present, Islamic Society organizations have been established in the autonomous region and in prefectures, cities, and 22 counties (cities) with over 1,400 Islamic Society committee members at all levels. In prefectures, cities, and counties where there are concentrations of believers in Lamaism, four Buddhist Societies have been established with over 70 directors. Patriotic religious groups have played an important role in the training of religious functionaries, developing friendly international contacts, and reflecting the opinions and demands of the believing masses.

5. We have completely withdrawn from occupied religious property. In line with the spirit of the State Council's directive and the plans of the autonomous region's people's government, in local areas, prefectures, cities, and counties, we have withdrawn from mosques above the county and town level, property that was occupied during the Cultural Revolution, and property in cities that was transformed during the socialist transformation. This work is basically completed. We have withdrawn from about 220,000 square meters of religious property. Plans are underway to withdraw from a small amount of property from which we have not yet withdrawn for a variety of reasons. This provided favorable conditions for providing places for religious activity and the necessary expenditures to realize self-cultivation.

6. We have actively developed international friendly religious contacts. Since 1982, the autonomous region's Islamic Society or the government's Religious Affairs Department has entertained over 20 groups and over 100 individuals, groups, representatives, reporters, and scholars from 14 Islamic countries, including Pakistan, Kuwait, Yemen, Egypt, Turkey, the United Arab Emirates, Iran, Libya, and Saudi Arabia who came to Xinjiang to visit, interview, or hold relevant talks. The autonomous region's Buddhist Society has entertained

five groups and 59 people from Japan's Buddhist visit China groups and circuit pilgrimage groups that came to Xinjiang to interview and observe. During this period, our region has sent over a dozen representatives of religious circles to visit six Islamic countries and some have also participated in international religious academic symposia.

7. We have helped Muslims make the pilgrimage to Mecca. From 1984 to 1989, over 8,000 Xinjiang Muslims went on self-supported pilgrimages, took the opportunity to make the pilgrimage while out of the country visiting relatives, or made the pilgrimage by other means. For so many people to be able to go to Mecca in these six years would have been unthinkable in the old society before the establishment of New China. This fully demonstrates that the party and government take very seriously and are concerned about the desire of Muslims to make the pilgrimage. Through the pilgrimage, we have also promoted friendship between Chinese Muslims and Muslims in other countries of the world.

Currently, the party's policy on freedom of religion takes root in the people's hearts more every day. The broad believing masses and patriotic religious figures are also satisfied with the thorough implementation of the policy on religion. In February of this year I participated in a southern Xinjiang working group organized by the autonomous region's party committee to get to know the religion work situation in the five local areas and prefectures of Khotan, Kashi, Kizilsu, Aksu, and Bayangol. We visited some mosques, visited more than 10 local well-known patriotic religious figures, and participated in six forums with religious figures. When we asked their views on the implementation of the policy on religion they uniformly praised the party's policy on religion and the respect and protection of freedom of religion and normal religious activity. A Uyghur religious figure in Moyu County said, "Now that the policy on freedom of religion has been implemented we can say that this is a golden age since liberation." A Uyghur religious figure in Aksu said that he had been to many countries, but none of them could compare to China's policy on freedom of religion. There was also a Hui imam who first repeated from memory a section of the Koran to the effect that Muslims should act fairly and speak fairly. He said that to speak fairly one should admit that there have been many dynasties in the over 1,300 years since Islam came to China, but not one of them had a policy on religion as good as the one under the leadership of the Chinese Communist Party. They also said that the only important issue is that they hope the party and government will be concerned about and help patriotic religious organizations give more serious consideration to training successors to the current religious functionaries. The praise from these religious figures for the party and government's policy on religion came straight from the heart and was sincere and conformed to reality. Since the Third Plenary Session of the 11th CPC Central Committee, due to the concern and efforts of people's government and party committees at all levels, in enforcing

the party's policy on freedom of religion, the primary problems that must be resolved have basically been resolved. In particular is that study of the relevant directives of the party Central Committee, the State Council, and the party committee and people's government of the autonomous region, first of all has made the party membership and cadres, especially leadership cadres at all levels of the party, aware of the importance of handling the religious issue well in the socialist era and has greatly improved self-consciousness of enforcing the party's policy on religion. This provided important guarantees that the party's policy on freedom of religion should be implemented conscientiously both organizationally and ideologically.

## II

Since the Third Plenary Session of the 11th CPC Central Committee, while enforcing the party's policy on freedom of religion, people's governments at all levels have strengthened administration and management of religion. Religious groups, mosques, and churches as social organizations, and religious activity as a form of social activity naturally should be administered and managed by the people's government. This management is not interference in the daily internal affairs of religious groups and mosques and churches, nor is it taking on what ought to be done by others. This type of management operates by using the Constitution, laws, decrees, and policies as criteria and by applying educational, legal, and administrative means. This type of management includes two functions: On the one hand, in line with the Constitution, laws, decrees, and policies it protects the lawful interests of religious groups and mosques and churches and guarantees all normal religious activity. On the other hand, religious activity of religious groups, mosques, churches and individuals that goes beyond the scope permitted by the constitution, laws, decrees, and policies should be restricted and all abnormal religious activity should be made normal through education and guidance, and illegal activity should be sanctioned in accordance with the law. As for a citizen, his right to exercise religious freedom and to observe discipline and adhere to the law are the same. Freedom of religion is a democratic right granted to citizens by the Constitution and at the same time is also restricted by the law. When exercising the right of freedom of religion, the citizen may not harm the interests of the state, society, and the collective, nor may he obstruct the lawful rights of others. As the Constitution clearly stipulates, "The state protects normal religious activity. No person may use religion to engage in any activity that destroys social order, harms the physical health of citizens, or obstructs the state's educational system."

From many years of actual practice, it is clear that since the Third Plenary Session of the 11th CPC Central Committee, the important lessons of the Cultural Revolution and "leftist" errors have been incisively summarized, the thinking and behavior of adopting administrative and command means to violently interfere with

freedom of religion has been criticized, and the understanding of party members and cadres has been improved. Thus, in respecting freedom of religion and safeguarding normal religious activity, generally speaking, this has been done well. Religious activity is basically within the scope permitted by the Constitution, laws, decrees and policies. In the past, management of religion according to the law primarily used two methods:

One method was to educate religious functionaries universally on the relevant laws to improve their idea of the legal system and raise their consciousness about upholding the law and discipline. For this, religious groups conducted examinations of religious functionaries in upholding the law and discipline and scriptural knowledge. Those who qualified were issued certificates indicating that they were qualified to have a religious vocation and to hold ordinary religious services. From the examination situation, it appears that, because of deficiencies in upholding the law and discipline or scriptural knowledge or for some other reason, there were people who did not conform to the religious vocation, and about 10 percent of religious functionaries in most places were not issued certificates and were not qualified to hold religious services. They could only conscientiously correct their errors or strive to study scriptural knowledge so that on reexamination they would qualify and then be issued certificates. This method had the approval and support of the believing masses and patriotic religious figures.

The other method is to adopt legal and administrative means to improve administration and management of religion. In November 1988 the autonomous region's people's government issued Order No. 2 and approved and announced the initiation of "Xinjiang-Uyghur Autonomous Region's Provisional Regulations for Management of Places of Religious Activity." These "provisional regulations" were drafted in accord with the stipulations of the Constitution, the laws of the autonomous nationality region's laws, and other relevant laws, and they were adjusted to the specific situation in Xinjiang and directed toward implementing the party's policy on religion in the past and problems that existed in religious activity. It similarly had two functions: One was to protect normal religious activity and safeguard the lawful interests of the place of religious activity. The other was to restrict abnormal religious activity that went beyond the scope of the Constitution, laws, and policies or that was illegal. After this statute was made public, people's governments at the local area, prefecture, city, and county made it known through newspapers, broadcasting, and television and arranged for religious functionaries and democratic management agencies and officials in charge of the places of religious activity to study it. In the more than one year since the "provisional regulations" were made public and put into effect, they have been welcomed and supported by the broad believing masses and patriotic religious figures. They think that the promulgation and putting into effect of the

"provisional regulations" was a great event in the religious and political life of the believing masses of Xinjiang. With the "provisional regulations," religious activity has a law to rely on, and clear distinctions between right and wrong to simplify management and supervision. Mosques and churches universally posted the "provisional regulations" and held them in high regard and conducted inspections and implementation in line with the "provisional regulations." Practice proves that the 23 articles of the "provisional regulations" are correct and have already had clearly positive results.

The problems that were discovered and treated in the process of carrying out management of places of religious activity and religious activity in accordance with the Constitution, laws, decrees, and policies are the following:

1. Illegal behavior of religion interfering in marriage still exists in some local areas. For example, some religious functionaries will perform the service for men and women who do not meet the marriage requirements and have not secured a marriage certificate and will declare them "married." Some will even perform the ceremony for a married man to "marry" another female. This is actually illegal cohabitation, which is serious unlawful behavior. The latter also revives a manifestation of special feudal religious privileges and discrimination against women. Such serious illegal behavior should be punished according to the law, and feudal religious special privileges of discrimination against women should be resolutely outlawed.

2. In some places, people have started scriptural schools or classes without approval. Some have been fairly large and involved many people, including a sizable number of school-age young people under the age of 18. Before a school can be established as a social entity it should obtain the approval of the local government. Starting a scriptural school or class without approval is a mistake and interferes directly with and injures the state's educational enterprise. Young people under the age of 18 should be allowed to study cultural and scientific knowledge. This had a bearing on the discovery and training of talented people and relates to nationality prosperity and development. Long ago, in 1952, when receiving a Buddhist delegation from Tibet, Comrade Mao Zedong said, "What we should be concerned about now isn't whether religion can exist, but whether the nationality can prosper." These words of Comrade Mao Zedong 38 years ago still merit people's attention. "The Compulsory Education Law of the People's Republic of China" clearly stipulates that "Religion may not be used to carry out any activity that obstructs compulsory education." Article 9 of the "provisional regulations" clearly stipulates that "Training of religious students is arranged for and organized by the autonomous region's patriotic religious organizations. No private person is permitted to undertake to operate a scriptural school or class." Some people use the operation of a scriptural school as a

pretext for disseminating ideology and opinions damaging to nationality unity, which is even more intolerable. Such scriptural schools should be outlawed. Some say that not permitting private individuals to operate scriptural schools and classes is not permitting people to study the scriptures and believe in religion. This is incorrect and it does not conform to the actual situation. The fact is that, since the Third Plenary Session of the 11th CPC Central Committee, citizens have enjoyed the right of freedom of religion and the right to study scriptures. This is obvious to all and has been universally acclaimed. Outlawing scriptural schools or classes operated by private individuals is an issue of the government's administration and management of religious affairs. Absolutely not permitting people to study scriptures or not letting them believe in religion should not be confused with this.

3. In some local areas, people have forced contributions in order to expand or renovate places of religious activity and this increased the economic burden of the believing masses and greatly exceeded the endurance of the masses. Some of the masses have written to the party committee and government complaining about this. Places of religious activity are places where believing masses usually conduct religious services. As production develops and life gradually improves, when conditions permit, to make places neater and larger the believing masses out of their pious religious belief voluntarily work, donate, or contribute for religious activity. This is perfectly understandable. But to engage in ostentation and extravagance, go in for grandiose projects, waste too many resources and increase the economic burden on the masses, even to the point of influencing the production and lives of the believing masses, is very improper. In places where the level of productive forces is still low, where the lives of the masses are not rich, and where some peasants are still relatively poor, to do this is even more wrong. Running counter to the free will of the masses, to inflexibly insist on apportioning forced contributions and even forcibly collecting a religious tax that has been abolished is not permitted and should be checked through criticism and education.

4. In some places there is opposition between different religious sects or viewpoints that even has an impact on local social stability. We advocate that, on the foundation of a patriotic and socialist common politics, be mutual respect between different religious sects or viewpoints there, seeking of common ground while reserving differences, each going his own way and living together in harmony. Whatever the sect or whatever the viewpoint, their activity must take the Constitution, laws, decrees, and policies as their criteria. Disputes should be appropriately resolved through calm discussion in line with the principle of mutual understanding and mutual accommodation.

5. Some foreign religious organizations and individuals have interfered in our internal religious affairs in a variety of ways. This is intolerable and when discovered should be resisted. Our Constitution clearly stipulates

that "religious groups and religious affairs are not controlled by foreign influences." The "provisional regulations" also clearly stipulate that "foreign religious believers may come to places of religious activity to participate in religious services, but may not preside over prayer or lecture on the scriptures," "foreign religious organizations and individuals are prohibited from coming to our region to preach or distribute religious literature," and so on. Practice proves that these stipulations are entirely correct and the effect of enforcing them has been good and in the future we will continue to enforce them conscientiously.

6. In some rural areas people have coerced nonbelievers to become believers and those who do not participate in religious activity to participate in such activities. This is also a serious violation of the policy on religion freedom and it violates the right granted citizens by the Constitution to believe in religion or not to believe in religion. Education should be intensified and propaganda extended so that people correctly understand the party's policy on religious freedom and whenever such illegal behavior is discovered it must be criticized and stopped.

It must be pointed out that the above irregular religious activity which exceeds the Constitution, laws, decrees, and policies and involves illegal activity cannot be permitted. From the perspective of our work, the reason that it exists is primarily that we have not taken it seriously enough, we have not checked it vigorously, and we have let things drift. In the future, under the united leadership of all levels of people's government, we must have close coordination of relevant departments and overall control. For this, we must intensify cadre education on policy and ideology so that cadres can distinguish right and wrong, dare to manage, and be good at management. We should give the relevant laws, decrees, and policies to the broad believing masses and patriotic religious figures and rely on the masses to supervise them. As long as we resolutely work hard and rely on the common efforts of the broad believing masses and patriotic religious figures, we will certainly be able to effectively check the illegal activity of the extreme minority and thus have religious activity further within the range permitted by the Constitution, laws, decrees, and policies in order to be favorable to social stability and socialist modernization.

### III

Further striving to rally and educate patriotic religious figures and fully mobilize their initiative to serve nationality unity, social stability, and the four modernizations is the key to doing religion work. For many years our region's work in this area has been very effective.

Since the Third Plenary Session of the 11th CPC Central Committee, work of striving to rally and educate patriotic religious figures primarily emphasizes four links:

First, conscientiously implement policy, reexamine and settle the unjust, trumped-up, and erroneous cases of the Cultural Revolution of about 1,500 people among them,

restore their political reputations, and basically return the property confiscated from them.

Second, continue to respect, protect, and support patriotic religious figures politically. Representative persons among them, whether elected as representatives to the People's Congresses at various levels, recommended for membership in the CPPCC [Chinese People's Political Consultative Conference] at various levels, or recommended for a certain position in religious organizations at various levels, number about 2,700 persons and make up about one-tenth of religious functionaries above the level of imam, gelin [2706 2651], priest, and minister of the religions of Xinjiang.

Third, continue to give care and concern for some among the patriotic religious figures who have problems in their lives. About 4,200 people now enjoy government subsidies. Annual expenses in this area total about 2.5 million yuan.

Fourth, give serious attention to intensifying political and ideological education work among patriotic religious figures. In the 1950's and 1960's, local area, prefecture, and city political schools were established as places of study for patriotic figures in various circles, primarily patriotic religious figures. Some counties currently also have similar schools. The CPPCC at various levels has established nationality religion groups. Religious figures in rural areas and towns have arranged study groups for intensive study at regular intervals. Various forums have been started and arranged for visits to the achievements of socialist modernization. In various forms, we carry out extensive and in-depth patriotic and socialist education, education on nationality unity and the unity of the ancestral land, and education of current events and policies among patriotic religious figures. Since putting down the counterrevolutionary upheaval and the disturbance in Beijing last summer, study for patriotic religious figures has been given greater consideration and has been intensified in local areas. According to incomplete statistics, in the past year, over 50 patriotic religious-figure study classes have been held by local areas, prefectures, and cities; over 2,000 persons have participated in study; more than 30 forums with over 700 participants have been held in various forms; and education on upholding the four basic principles and opposing bourgeois liberalism has been carried out intensively. Many places have also started comparison and assessment activity of "five good mosques" and "five good religious figures" with very good results. Through study and education, the political consciousness of patriotic religious figures has been raised. During the forums, many people said with profound understanding: In the 10 years of the Cultural Revolution leadership cadres were attacked as capitalist roaders, intellectuals were turned into the "stinking old nines," religious figures were falsely accused of being forces of evil, and freedom of religious belief became an empty phrase. Yesterday was the profound bitterness of disturbances, today we doubly enjoy the sweetness of social stability. We definitely should resolutely take the

socialist road of our party and make a new contribution to safeguard nationalities unity and social stability and to the four modernizations.

In terms of conditions in Xinjiang, while we should fully affirm the party's policies on religion that have been conscientiously implemented by people's governments and party committees at all levels for many years now, we should actively guide and motivate patriotic religious figures and the broad believing masses to make an important contribution to the building of two socialist civilizations. The many workers, peasants, and herdsmen who come from the minority nationalities of our region make up the overwhelming majority of the believing masses. Their important contribution in building two socialist civilizations is very obvious. The overwhelming majority of religious functionaries live in rural and pastureland areas and with the members of their families generally participate in productive labor to the extent of their ability. The families of some patriotic religious figures with outstanding achievements have emerged and become models of selling to the state public and surplus grain and livestock. This has had a positive influence on the broad believing masses. On the basis of their conditions, many patriotic religious figures who live in towns above the county level have participated in social service activity within the scope of their abilities.

Patriotic figures in religious circles have similarly made beneficial contributions to the building of a socialist spiritual civilization. In terms of Xinjiang's circumstances, what is worth praising, first, is that patriotic religious figures for many years have made encouraging achievements in increasing unity among nationalities, especially unity among Han Chinese and minority nationalities. Especially in the process of handling incidents and disputes between members of different nationalities or different religious sects that occurred in some areas in past, local religious figures actively assisted the party and government to do mediation and unity work and produced very good results. Many of them were praised as models of nationality unity, and attended recognition meetings held by the nation, autonomous region, local area, prefecture, city and county. According to statistics from the Kashi region alone, before 1988, there were a total of 562 religious figures regionally who were praised as models of nationality unity, including 55 who attended district, autonomous region, and national nationality unity recognition meetings. Second, patriotic religious figures have actively helped grassroots-level party and government leaders do their work, encouraged the believing masses to carry out production, and, at busy times for agriculture when there is less time for religious activity, relaxed the demands on their followers to attend religious services. They have played a very good role in such areas as persuading the believing masses to respond actively to the government's calls, to sell public and surplus grain to the state, to support the development of nationality culture and education, being concerned about educating wayward youths, publicizing family planning for minority nationalities, helping eliminate illiteracy, and reforming outmoded conventions

and bad habits. Third, religious groups in some areas have organized patriotic religious figures and the believing masses to contribute money for earthquake and disaster regions and for the handicapped, to help poor households, to help "five-guarantee" households and households with a labor shortage to plant rice seedlings and seed on time, and have been praised by society. Fourth, some religious figures, especially some with skills in acupuncture, have actively healed the sick of many nationalities, trained medical talent, translated medical books, uncovered a legacy of medicines, and made a clear contribution to developing minority nationality medicine and public health. Fifth, famous figures of religious circles have given full play to some positive factors in the excellent traditions and creeds of love for country and religion and have integrated religious doctrine and reality, thus presenting the followers with some things beneficial to the demands of socialist modernization and of benefit to socialism, and this ought to be welcomed. Sixth, religious culture is a part of human culture, and religious figures have made a contribution in inheriting the traditional culture of the nationalities and enriching China's socialist culture. Seventh, patriotic religious figures have devoted considerable effort to maintaining world peace.

Practice proves that in our socialist period, on the one hand, we are correctly implementing the party's policy on religion and, on the other, encouraging and urging religious figures and the believing masses to actively serve the four modernizations that may constantly promote cooperation between religion and socialism.

Summarizing the party's religions work since the Third Plenary Session of the 11th CPC Central Committee, I feel that, proceeding from the actual situation in Xinjiang and upholding the principle of the integration of theory and practice, the following experience merits remembering:

First, we must firmly believe in the line of the Third Plenary Session of the 11th CPC Central Committee and the correctness of the party's policy on religion. We firmly believe that the overwhelming majority of religious figures and the believing masses uphold the party's leadership and ardently love the socialist ancestral land and are willing and able to make a contribution to nationality unity, social stability, and the four modernizations. In the socialist period, especially in its early stages, it was inadvisable to overemphasize that there is a difference between the ideology of the believing masses and the nonbelieving masses and that they should see clearly that their fundamental interests politically and economically are the same. With patriotism and socialism as the common political and ideological foundation, we should unite all believing masses and nonbelieving masses, concentrate our will and strength, and together work and struggle to build a strong modernized socialist country. This is the fundamental point of departure and foothold of our thoroughly implementing the policy on freedom of religion and correctly handling all religious issues.



Second, we should understand well the protracted nature and complexity of the religious issue in the socialist period. As a superstructure of society and as a social ideology of fideism, religion will exist for a very long time. Religion and politics of the socialist period are intimately related. They are also frequently intertwined with the nationality issue and are subject to complex international environmental influences. The complexity of the religious issue in the socialist period is expressed prominently in domestic and foreign antagonistic forces frequently raising the banner of "safeguard religion" and "promote religion," the echoes at home and abroad, and taking advantage of the opportunity to conduct activity opposing the leadership of the Chinese Communist Party and denying the socialist system. At the same time, in the border areas where China's minority nationalities are concentrated, it is expressed as an attempt to destroy unity among nationalities and split the unity of the ancestral land. Nationality splittist forces always want to use religion for destructive activity. Thus, we must conscientiously enforce the party's policies on religion; in handling the religion issue we should adopt an extremely prudent, very serious, and carefully thought-out attitude, and cannot pursue the matter simply, impatiently, and carelessly; we should always take seriously doing work to strive for uniting and educating patriotic religious figures and educate broadly and in-depth the believing masses in upholding the four basic principles, safeguarding nationalities unity and consolidating the unity of the ancestral land and in a timely fashion expose the criminal conspiracy of antagonistic forces and splittist elements.

Third, we should treat the social function of religion under socialist conditions in a manner of seeking truth from facts. The basic thinking of religious philosophy has not changed under China's socialist conditions. Religion is still an upside-down worldview and is idealistic. From a political perspective, under socialist conditions, generally speaking, although the exploitative class no longer exists as a class and the political essence of religion that the exploitative classes used in the old society has basically disappeared as well, there is still the problem that antagonistic forces that use religion for destructive activity still exist at home and abroad. Religion still has two social functions. If we guide correctly and our work is proper we can change negative elements into positive elements so that religion constantly adapts to socialism and is beneficial to construction of the two socialist civilizations. Otherwise, it can give rise to the opposite function.

Under our socialist conditions, due to the correct leadership of the Communist Party, the people control political power so it is possible to make some positive elements in religious doctrine play a role. There are positive elements in religious doctrine, such as "cherish the native land," "inseparable," "mutual aid and justice," "uphold justice," "seeking knowledge begins in the cradle and ends in the grave," "guard against too many grandsons," "love and respect father and mother," "help

the poor," "live in harmony with your neighbors," and "cherish your subordinates," that are found in the Islamic scriptures; "the peasant and the Buddhist are equally important," "it wasn't made in a day, don't eat it in a day," "the land is stately, sentiments are happy," "all life is equal," "repay the state with kindness, repay all life with kindness," "do not do evil, do only good," "study broadly and listen much," and "it is self-interest to let others profit, broadly seed the rich field" that are mentioned in the Buddhist scriptures; be strict in self-discipline, treat others with tolerance, love others as yourself, be modest and sincere, be fair in business, respect one's elders, and do not cheat your neighbor, that are mentioned in Christian doctrine; and all religions have warnings prohibiting murder, theft, licentiousness, arrogance, greed, and falsity. Although these have a strong religious flavor, there are strong similarities with the demands of the "four have's" and the "four loves." At the present stage, as far as religious followers are concerned, the above religious doctrines may play a supplementary role in the education on socialism, patriotism, and nationalities unity that we direct towards the masses and the education in such areas as working hard and becoming rich, respecting knowledge, family planning, and socialist morality. Comrade Zhou Enlai said, "Certain positive elements in religious doctrine can play a motivating role in nationality relations."<sup>1</sup>

Fourth, in treating and handling issues in religion, we should pay attention both to overcoming "leftist" thinking and also to overcoming rightist thinking. In implementing the party's policies with regard to religion, generally speaking we should overcome "leftist" thinking. In managing religious activity, we should pay attention both to preventing recurrence of administrative and command techniques like those of the Cultural Revolution and errors of violent interference with freedom of religion and also to correcting right deviations of nonintervention in irregular and even illegal religious activity that exceeds the scope permitted by the Constitution, laws, decrees, and policies in some areas.

#### Footnote

1. "Selected Readings on Zhou Enlai's Theory of a United Front" p 308.

**Xinjiang Discipline Inspection Commission Meets**  
*OW2907002590 Urumqi Xinjiang Television Network*  
*in Mandarin 1300 GMT 23 Jul 90*

[From the "Xinjiang News" program]

[Text] The Xinjiang Regional Discipline Inspection Commission held its 11th plenary meeting in Urumqi yesterday afternoon. The meeting pointed out that discipline inspection commissions at all levels should fully exercise their supervision and inspection functions and work hard to improve party style and build clean government in the autonomous region. They should work hard to restore and carry forward the party's fine tradition, cement the flesh-and-blood ties between the party

and the masses, maintain the party's character as the vanguard of the working class, consolidate and develop Xinjiang's political stability and unity, strengthen national unity, safeguard the unification of the motherland, carry out the policy of improving the economic environment and rectifying the economic order and the policy of reform and opening, and ensure the smooth progress of the region's economic construction.

(Abudureyima Amiri Jinjixun), deputy secretary of the regional Discipline Inspection Commission, presided over the meeting.

The meeting called for doing the following to produce good results:

1. Pay greater attention to and strengthen the building of party style and clean government, eliminate negative and

corrupt phenomena within the party, and make constant efforts to strengthen flesh-and-blood ties between the party and the masses.

2. Strictly enforce the party's political discipline and fight political corruption.

3. Continue to handle important, major discipline cases well.

4. Make vigorous efforts to eliminate unhealthy practices and ensure cleanliness in all trades and professions.

5. Strengthen education in party style and clean government, improve party style, and build clean government on a regular basis, and inspect the progress made in this regard.

### Analysis of Taiwan's Changing Political Direction

90CM0290A Hong Kong LIAOWANG [OUTLOOK]  
OVERSEAS EDITION in Chinese No 23, 4 Jun 90  
pp 22-23

[Article by Tsai Tsui-min (5591 1311 3046): "Taiwan's Political Direction in the Transition Period"]

[Text] In recent years, Taiwan's political situation and direction have undergone the most drastic change since the KMT [Kuomintang] took off for Taiwan. The country is at a critical turning point, that is, a transition period.

In the 38 years from the time the KMT authorities collapsed and took off for Taiwan (1949) until martial law was lifted (1987), Taiwan's political system was basically a totalitarian dictatorship, that is, dictatorship by the KMT which monopolized the political assets and power. The Chiang father and son ran a personal dictatorship and centralized the supreme authority. But in the wake of Taiwan's economic and educational development, and as its socioeconomic structure changed, the general public, especially the middle class and intellectuals, began to demand democracy, and the voice against totalitarian dictatorship grew louder and louder. The power struggle between nonparty forces and the KMT grew more intense. Adding pressure from the foreign countries, at the Third Plenary Session of the 12th KMT Central Committee held in March 1986, Chiang Ching-kuo was forced to call for the restructuring of the political system, and he instituted such political reform measures as gradually lifting martial law, lifting the ban on political parties, and easing to an extent the restrictions on contact with Mainland China. Chiang Ching-kuo passed away in January 1988. In the two years since Li Teng-hui took over the highest government office of the KMT, Taiwan's political situation has undergone a period of structural changes.

#### The Political Structure Turns Pluralistic and Native

1. The pluralized power structure: Chiang Ching-kuo's passing ended the era of the "political strongman," and factional struggle quickly surfaced within the KMT. Conflict heightened and struggle intensified among the different forces over the redistribution of power. The "Forum Faction" and "CC Faction" and other old cliques of mainland origin within the "Legislative Yuan" and the "National Assembly" resurfaced and stepped up their activities and seized the moment of transition from the old to the new era to gather political assets from among the third-generation KMT members. Each group put its own agent in the party's and government's decisionmaking body and the power hub. Within the "Legislative Yuan" and "National Assembly," groups such as the "Collective Wisdom Society," the "New KMT Line," and the "Construction Study Group" were organized, headed by the newly added Taiwanese representatives. These groups are in sharp conflict with the mainland-born old guards; sometimes they even put up a

rival show against the KMT authorities. Since Li Teng-hui took office, he has tried vigorously to nurture the party grassroots and has dragged many of his close and trusted native Taiwanese followers into the KMT Central Committee, the party's National Congress, and the "Executive Yuan" and has given them important posts to shore up his own position. The KMT's highest power has made the transition from extreme centralization to relative decentralization and pluralization of power. The KMT's power structure has changed from a highly concentrated and monopolistic "political strongman"-style centralized system to a pluralistic "collective leadership" system.

Since last year, there has been a new development in the internal struggle among the KMT factions over the "presidential" election. The political disputes among the KMT higher-ups have grown intense. At an interim plenary session of the KMT last March, there was disagreement over the issue of the "presidential" candidate, which produced two distinct factions, the "ballot group" and the "stand-up group," and they confronted each other openly. On the eve of the "presidential" election, there was a power struggle between these two factions as each backed its own "presidential" and "vice presidential" candidates. Li Teng-hui relied on the support of many sides to win the election. Amid the power struggle and the mediation and reconciliation, Li Teng-hui created a mainstream group and gradually shored up his position as the power hub, but the power struggle among the different factions within the KMT is bound to continue.

2. Political power turns native. In the wake of the rapid increase in Taiwan's local economic strength, Taiwan natives are increasingly vehement in their opposition to the monopoly of power by the privileged class of mainland natives. Since the 1970's, the KMT authorities have promoted a "native" policy and have appointed many Taiwanese natives to high places, striving to achieve the goal of planting the KMT's roots in Taiwan and hoping to find peace and security in its corner of the world. By the mid-1980's, Taiwanese natives made up more than one-third of the members in the KMT's high-level power structure. When Chiang Ching-kuo passed away and Li Teng-hui took over, this "nativism" made an abrupt development. In July 1988 Li Teng-hui was elected KMT party chairman and in March of this year he was reelected "president." Reportedly, it was "mutually understood" within the KMT that the "president" would be Taiwanese. It is certain that Taiwan's three so called "popular-consensus organs" of the central government will turn "native" very rapidly. Leaders of the "popular-consensus organs" and governments at all levels are elected officials, and mainland natives rarely receive the support of native Taiwanese voters, and so, within the next two years, when all the seasoned mainland-native committee members have resigned and the newly added elected committee members increase substantially in number, the "Legislative Yuan," "Control Yuan," and the "National Assembly" will get a "transfusion of new

blood" and will turn "native." Instead of domination by mainland-native bureaucrats in association with Taiwanese natives, the KMT will move even faster toward a power structure dominated by Taiwanese natives in association with the elite, third-generation mainland natives.

At present, there are a little over 3 million mainland natives and their descendants living in Taiwan; they make up 16 percent of the population. They have lived in Taiwan for a long time and to varying degrees have come to identify with Taiwan. Accompanying the development of the "native" policy, third-generation mainland-native political figures who grew up in the 1930's and 1940's are gradually becoming more conscious about putting Taiwan first, and they themselves have turned native.

It should be pointed out that the KMT is promoting the "native" policy mainly because of the Taiwanese natives' opposition to the KMT's autocratic rule, their demand for democracy, their opposition to the privileged class of mainland natives who monopolize the power of government, and their demand for political participation rights, and because the KMT wants to plant its roots in Taiwan to ensure its survival. The idea of turning "native" (Taiwanization) and the consciousness of Taiwan as one's native land are not the same as Taiwanese separatism and the idea of Taiwanese independence. But the KMT is going "native" under its anticommunist policy and the policy of rejecting reconciliation and maintaining sovereignty in its own corner of the world. It will foster the idea of separating Taiwan from the mainland and provide the breeding ground for the Taiwanese independence movement.

#### Development Toward Party Politics

Since the mid-1980's, Taiwan's ascending middle class has been increasingly vehement in demanding that the KMT change its unreasonable political power structure and totalitarian rule. The people long for the kind of political power more in keeping with their economic status. The workers and farmers are also more democracy-conscious, and the out-of-power forces yearn to get into politics. Many social forces converge to form a mighty torrent demanding democracy and reform. As a result, the KMT authorities had no choice but to declare, in July 1987, the lifting of martial law, which was followed by the lifting of the ban on political parties, ending the KMT's "one-party dictatorship." Taiwan's out-of-power opposition parties ended their "illegitimate" struggle with the KMT as they entered a new era of "legitimate" competition with other political parties. Soon many small parties came into being. In the election for the "three branches of public office" held late last year, many out-of-power parties nominated their own candidates, but only the Democratic Progressive Party [DPP] had the actual strength to compete with the KMT. Under intense political and social pressure, the KMT has no choice but to take a series of countermeasures to transform itself and increase its competitiveness as it

struggles with the other parties over the redistribution of power. Taiwan has moved from the KMT's "one-party dictatorship" to a political situation where "one party has superiority, but many parties are competing, and two parties are in contention."

The KMT authorities' turning their "one-party dictatorship" into "party politics" to some extent has brought in a kind of Western bourgeois-style democracy—parliamentary democracy. In the past, the KMT had transplanted from the mainland all of its political organs, from the "National Assembly" to the "Office of the President," "Executive Yuan," "Legislative Yuan," "Judicial Yuan," "Control Yuan," and "Examination Yuan," which became the basis of its "legally constituted authority." Under the KMT's "martial law against [the communist] rebellion," the "president's" power was greatly inflated; the "popular-consensus organs" existed in name only. Today, as politics turn pluralistic, the DPP is not only standing up against the KMT in the "popular-consensus organs" but is also arousing the public to take to the streets, putting pressure on the KMT. In order to put the out-of-power opposition forces in its own camp, the KMT must strengthen the "popular-consensus organs," enhance the "Legislative Yuan's" functions, and put its parliamentary politics to work, so that the "popular-consensus organs" are not just a symbol of its "legally constituted authority" but are truly a gathering place of the people's consensus. This will be one of the key points in the "National Justification Conference" to discuss possible "constitutional amendments," to be convened by the KMT at the end of June this year.

The out-of-power forces' opposition to the KMT's dictatorship helped promote the pluralization of Taiwan's politics, but Taiwan's party politics are very limited. The pluralization of Taiwanese politics to some extent has increased the general public's and the nonruling forces' political participation and competition, but Taiwan is still maintaining an "extraordinary" legal system of "a period of national mobilization and suppression of [the communist] rebellion," and, because the KMT has long had political monopoly, the out-of-power forces' activities face many restrictions. In particular, the working class, the progressive intellectuals, and the patriotic unification forces that have long been suppressed are even more limited in what they can do. There is little "fair and equal" political competition to speak of. There is a wide gap between Taiwan's party politics and pluralization and Western-style party politics.

It is worth noting that, while promoting party politics, the KMT is also tolerating and even encouraging the "Taiwanese independence" forces to become openly active in the political arena. In recent years, since the lifting of martial law and the change in Taiwan's political climate, the "Taiwanese independence" movement has moved from overseas to the island, from underground to the open, and is quite swollen with arrogance. Late last year, when Taiwan held elections for the three branches of "public office," some candidates actually hoisted the "Taiwanese independence" banner and won elections.

This is attributable to foreign forces which help fan the situation and to the KMT's "three no's" policy and its refusal to negotiate while clinging to its limited sovereignty. Under the slogan of "democratization of Taiwan," the "Taiwanese independence" movement engages in activities to split China. This will undermine Taiwan's stability and democratization process as well as the long-term interest of the Chinese nation.

#### Adjusting the Mainland Policy

The new generation of KMT officials does not share the experience, ideologies and concepts, and political style of the old generation. Many of today's generation have studied in the West and are very much influenced by Western political theories, culture, and value systems; and, politically, they favor the capitalist political system. They want to protect the KMT's vested interests and the power it holds, but they are without the historical burden and must face reality, take a "flexible, pragmatic" approach, and adopt a utilitarian policy.

On the relationship between the two shores of the Taiwan Strait, the newly reformed KMT realizes that economic contact between the two sides cannot be stopped. It has revised its mainland policy and is handling the "three no's" (no contact, no negotiation, no compromise) with greater flexibility. It focuses on maintaining Taiwan's "security" and abides by the principle of keeping the contact "civilian, indirect, unilateral, and gradual," allowing more civilian contact between the two sides step by step. It has been more accommodating in handling the "three exchanges" (exchange of mail, exchange of air and shipping services, and exchange through trade) between the two sides and has kept the relations between the two shores within the scope and at a speed it can control in order to satisfy its political needs. First, it has eased restrictions on contact between the two shores in order to curb the spread of "Taiwanese independence" ideology, ease outside pressures on the question of unification versus independence, and stabilize Taiwan's political situation. Second, it has lifted restrictions on the economic and trade relations between the two sides in the midst of Taiwan's economic recession, inundation of idle funds, and social disturbances, hoping to find a way to sustain Taiwan's economic

development and social stability. Third, it is utilizing its present economic superiority to develop economic and cultural intercourse between the two shores, attempting to control southern China's economy and promote the "Taiwanese experience."

On the question of peaceful negotiation and unification, the reformed KMT still maintains a one-China stand and advocates a unified China and opposes Taiwan's independence. But in the wake of the recent changes, it has abandoned its "three no's" and has softened its refusal to negotiate. First it has asked Mainland China to give up its insistence on the "four upholds" and "one country, two systems" as preconditions to negotiation and unification. Then it abandons the traditional concept of "legally constituted authority" which maintains that "the Chinese will never reconcile with the traitor." It has proposed holding "negotiation between the two governments as equals" and taking "one country, two systems" as the mode in resolving the relationship between the two sides to create a political setup whereby the two "share sovereignty rights, but split the administrative power."

Internationally, the reformed KMT is putting readmission to the international community as the primary objective of its foreign policy. It is actively pursuing a flexible diplomacy, utilizing economic and trade measures, and taking a monetary offensive in hopes of obtaining "double recognition" and acceptance of the "one country, two governments" setup. Internationally, it tries to reinforce the equality between the "two government entities" and seeks the role of an "independent international sovereign state" in an effort to "expand the space of its international existence." In essence, and if we look at the results, what the flexible diplomacy does is to create "two Chinas" or "one China, one Taiwan," which is contrary to the goal of reunification of China. Despite the reformed KMT's flexible diplomacy and its monetary offensive, it has not been very successful internationally. Few countries and fewer far-sighted politicians will overlook the PRC's strength and its irreplaceable political status and influence in the international community. The KMT's attempt to "return" to international circles, and even the United Nations, as an "independent international sovereign state" is but an unrealistic fantasy.



**Pattern of Investments in PRC Analyzed**

90CE0197A Hong Kong KUANG CHIAO CHING  
[WIDE ANGLE] in Chinese No 211, 16 Apr 90  
pp 34-37

[Article by Liang Mo (4731 3351): "Taiwan Commercial Investments in the Mainland Top \$1 Billion"]

[Text] Recently the Hong Kong, Macao, Taiwan, and overseas press has been predicting that, in the wake of the visit Wang Yung-ch'ing [3769 3057 1987], Taiwan's biggest entrepreneur, made to the mainland to inquire about investment and plant start-up possibilities, there will be a new breakthrough in trade relationships between Taiwan and the PRC. Some figures in Hong Kong economic circles feel if PRC coastal regions can focus seriously on improving their investment climate, this will be an excellent opportunity for China to bring current economic difficulties under control, resolve the surplus labor problem, and even develop the coastal economy.

Wang Yung-ch'ing, chairman of the board of the Taiwan Plastics Group, is Taiwan's richest man. He has been called a "petrochemical magnate," and he is a world famous "managerial genius." At the end of November 1989 Wang himself visited Beijing, Guangdong, and Fujian, inquiring about mainland investment possibilities. He has already arrived at a preliminary agreement and plans to establish a "petrochemical special economic zone" on the coast of China. This action will have major repercussions in Taiwan, Hong Kong and Macao, and indeed in the world at large. The Taiwan press has labelled this phenomenon the "Wang Yung-ch'ing effect." The "effect" on Taiwan industrial and commercial circles has been an upsurge in investment fever directed at the mainland. Major Taiwan corporations such as Yueloong [5940 7127] Motor Company, Chi-yeh [3444 2814], Pacific Construction, Eastern Empire, Pufeng [0592 5762], Tsu-sheng T'ang [6327 3932 1016], and Sheng-pao [5116 1405] have recently expressed an interest in investing in the mainland.

**Taiwan's Investment Climate Is Deteriorating, Taiwan Businesses Consider Returning To Establish Plants on the Mainland**

The deteriorating investment climate on Taiwan is the primary reason that Taiwan businesses are thinking about returning to invest and build plants on the mainland.

On an economic level, this deterioration is manifested in monetary appreciation for the New Taiwan dollar, wage inflation, exorbitant land prices, a continuing high interest rate on credit, and an increasing cost of production; on a noneconomic level, it is expressed in a rising concern for environmental protection, labor consciousness-raising, deteriorating public security, a vigorous interest in speculation, a manpower drain, and a declining social atmosphere. Among these, the most serious impediments to stable economic development on

Taiwan are the deterioration of public security, people's desire to avoid unpleasant work, and moral degradation. Wang Yung-ch'ing told Taiwan reporters that: "I feel that wage inflation and monetary appreciation are of no consequence. Right now the major problem is that the virtue of diligence that Chinese people once had seems to have disappeared in Taiwan. No one in Taiwan is willing to work hard any more—they are all spending their money on recreation. We cannot even find enough workers for public construction projects."

Taiwan's CHING-CHI JIH-PAO reports that the Taiwan Ministry of Economic Affairs recently conducted a survey of small- and medium-sized enterprises in five cities on the island, and discovered that one third of them have been subjected to harassment and blackmail at the hands of hoodlums. Harassment tactics have included pressure to promote products, destruction of factories and residences, damage to communication and transportation equipment, and extortion of money from shop owners. In alarm, some well-known Taiwan entrepreneurs declare that deteriorating public security and the flood of illegal guns in Taiwan already pose a grave threat to stable economic growth. They also warn Taiwan authorities against allowing the "foundation" of enterprise existence to decay away.

Recently, Taiwan's KUNG-SHANG SHIH-PAO conducted a "survey of entrepreneur investment aspirations," which revealed that 52.1 percent of all entrepreneurs remain pessimistic about the overall investment climate in Taiwan over the next year. These entrepreneurs feel that the causes underlying their continuing pessimism are deteriorating public security and the unchecked spread of spending on recreation.

Can this deterioration in the Taiwan investment climate be changed? Taiwan entrepreneurs express little confidence in this possibility; they feel that even if it can be changed, it is not something that can be done overnight. Therefore, one after another, entrepreneurs are seeking to invest overseas.

**Taiwan Investment in the Mainland Already Exceeds \$1 Billion**

In the past few years, in addition to investing and opening plants in Thailand, Malaysia, Indonesia, the Philippines, Vietnam, and other Southeast Asian countries, many Taiwan businessmen have sent representatives or gone themselves to explore or sound out investment possibilities. According to reports in the Taiwan press, as of the end of October 1989, Taiwan investment in the mainland already exceeded \$1 billion.

Although economic and trade relations between Taiwan and the mainland were affected to some degree by the disturbances in Beijing during 1989, since the political situation in the PRC stabilized there has been no end to the visits Taiwan businessmen have made to trade and send out feelers. Of these, Wang Yung-ch'ing's exploratory return to the mainland has had the greatest impact.

Wang Yung-ch'ing's industrial petrochemical enterprise is a large-scale basic industry. It must assimilate or coordinate with a large number of interrelated petrochemical enterprises downstream before there can be any return. In the Philippines, Thailand, and other Southeast Asian nations there can be no such assimilation. But in Mainland China, labor is plentiful and wages are low, while there is also a great land mass, some foundation in heavy industry, and vast reserves of natural resources. Moreover, perhaps other support industries will similarly relocate and invest in the mainland. Thus, China is extremely well-suited to large enterprises like Wang's.

Wang Yung-ch'ing has revealed that he is considering the selection of a coastal locale on the mainland to establish a Taiwan Special Economic Zone. If Taiwan Plastics establishes a plant on the mainland and transports the raw materials there from Taiwan, it could circumvent the labor shortage on Taiwan and rejuvenate economic development. This would have no disadvantages—only advantages—for Taiwan. Some Taiwan businessmen have expressed the feeling that if they fail to take advantage of this opportunity to set up factories on the mainland, and wait until others swarm to snap up the chance, it will be hard to make any money. This sentiment is widespread among Taiwan businessmen. Consequently, interest in investment and plant start-ups on the mainland is growing faster among businessmen in Taiwan than in Hong Kong.

Since Wang Yung-ch'ing conducted his investigation of the mainland after the "June 6th" episode and decided to invest a large volume of capital in plants there, his actions have had considerable impact on other large-scale enterprises. The results of a public opinion poll published in the Taiwan press indicate that seven-eighths of the people feel it would be understandable for Wang to transfer part of his operations to the mainland for development. Half of the enterprises indicated that it would be a natural thing to move operations abroad.

Recently more and more businessmen and entrepreneurs have been ignoring the Taiwan authorities' prohibition on direct trade and economic contacts with the mainland, and have been using Hong Kong as their forward position for establishing companies. Some even go directly to the mainland to hold talks. According to reports, almost all shoe and umbrella manufacturing companies have invested in mainland plants, and textile, toy, and lighting equipment manufacturers are also placing this possibility on the agenda. Right now at least 600 businesses have invested in plant start-ups in Guangdong, Fujian, Zhejiang, Shanghai, and Shandong.

#### **The "Wang Yung-ch'ing Effect" Has Stimulated Greater Interest Among Taiwan Businesses**

Currently the Taiwan authorities continue to oppose the "Three Exchanges" policy with the mainland—exchange through trade, exchange of mail, and exchange of air and shipping services. Wang's meetings with representatives

of Guangdong and Fujian to discuss the possibility of closer cooperation on economic and trade questions set the "Wang Yung-ch'ing effect" in motion. Thereafter, some Taiwan officials suggested that Wang's private visits to the mainland should be investigated and "handled according to law." However, the media and more and more business leaders are assailing the bureaucracy's ultraconservative attitude and demanding that the authorities thoroughly review the situation and draft a new mainland policy that would open direct trade between the two shores and permit Taiwan businesses to invest in mainland plants. The "Taiwan Industrial Association" proposes that nongovernmental enterprises be permitted to test the waters on the mainland. The Taiwan textile sector has made three suggestions to the government: it asks that restrictions be lifted immediately to permit industrial and commercial interests to investigate the mainland market; and it seeks permission to bring in analytical reports and specialized almanacs on officially approved mainland commercial statistics and industrial relations.

#### **Nongovernmental Organizations To Coordinate Economic Relations and Trade Between China and Taiwan Will Emerge as Conditions Warrant**

New nongovernmental organizations established to coordinate economic relations and trade between China and Taiwan will emerge as conditions warrant, and will actively promote activity. There is one such organization, known in Taiwan as the "Two-Shores Commercial Coordination Association," and in the PRC as the "Two-Shores Economic Relations and Trade Coordinating Association." In the spirit of mutual aid and benefit, friendly consultation, and the promotion of bilateral exchanges, this organization seeks permission from the Taiwan authorities to provide advice and aid on economic and technical exchanges, trade contacts, and investment, and to help factories and businesses handle and mediate disputes and related issues that may arise between the two sides. Although this coordinating organization has not yet received government recognition in Taiwan, it is in harmony with the will of the people and is essential under the circumstances. It looks as though this is an unstoppable trend.

In the wake of the exposure of Wang Yung-ch'ing's activities on the mainland, trademark and patent right issues are also receiving closer scrutiny. According to Taiwan press reports, some Taiwan businessmen have already rushed in to obtain trademark registration. Rumor has it that the "T'ung-yi," "Wei-ch'uan," and "Wei-wang," three giants in the food products industry sent representatives to the mainland as early of the end of January 1990 to discuss trademark registration issues.

Under the enormous pressure from industrial and commercial leaders and the media to enhance economic and trade relations between Taiwan and the PRC, Kuomintang Secretary General James C.Y. Soong [1345 2806 3842] indicated during his official new year's visit to a

Taiwan provincial industrial and commercial organization on 9 February that after the presidential and vice-presidential election in March there would be changes in personnel. The new personnel, new policies, and new attitudes, he said, would be very helpful to the industrial and commercial sector and offer it new hope. Taiwan's "Ministry of Economic Affairs" has decided to invite scholars who have studied mainland laws and market factors, factories and businesses who have experience in investing in the mainland, and representatives of the Hong Kong Office of Accountants, which has arranged for businessmen from various countries to invest in the PRC, to attend a presentation on "Mainland Investment Opportunities," to be held somewhere in Taiwan between March and April 1990, in order to help Taiwan businessmen understand the mainland market and investment climate. This is the first officially organized presentation on mainland investment to be held in Taiwan. To better understand the investment climate in the mainland coastal region, the Hong Kong-Taiwan Trade Promotion Council, located in Hong Kong, also recently requested data from PRC economic and trade organizations stationed in Hong Kong.

Taiwan officials have also disclosed that the government is about to relax restrictions on mainland investment. Taiwan Ministry of Economic Affairs Vice Minister Wang Chien-shien [3769 1696 2537] told a reporter that "The government will clarify the ambiguities in the law and formulate clear-cut regulations." However, he continued to maintain that direct investment in the mainland is too risky and may provide Beijing with an opportunity to meddle with Taiwan's economy.

However, the Taiwan press has recently been predicting that there is about to be a breakthrough in economic and trade policies toward the mainland. The "Ministry of Economic Relations" is currently studying the situation and making plans. It is considering application procedures for mainland companies that wish to do business in Taiwan, as well as guidelines for examining and approving each case. It is likely to open up mainland investment for all but high-tech industries and technologies developed through industrial research.

In addition, the government is studying the feasibility of allowing publicly owned enterprises to purchase agricultural and industrial raw materials on the mainland.

Of course, both in Taiwan and abroad, there are also people who throw cold water on the idea of closer economic and trade cooperation between Taiwan and the mainland. Professors Cheng Chu-yuan [6774 4554 0954] and Ch'iu Hung-ta [6726 1347 6671], natives of Taiwan who teach in U.S. universities, feel that Taiwan investment in the PRC would benefit the latter to the detriment of Taiwan. HSIANG-KANG SHIH-PAO says that if Taiwan were to invest a large quantity of money in the PRC, and not only open the way for the Chinese Communists' "Three Exchanges," but also lower the "anticommunist" guard in the public mind, it would lead to unforeseen consequences. This newspaper also

says that if Taiwan were to invest in mainland plants, "the political risks would be enormous, and it is not wise to take risks with the mainland." It calls upon the Taiwan authorities to resolve problems for Taiwan investors so as to create a good investment climate at home. This seems to illustrate that the development of economic and trade relationships between Taiwan and the PRC is not all smooth sailing.

#### **China Should Be Serious About Improving the Investment Climate**

I paid a special call on Ting K'ai-en [0002 2818 1869], chairman of the Hong Kong-Taiwan Trade Coordination Association, and some Taiwan businessmen, and they unanimously felt that although right now there is an unstoppable tide of Taiwan businessmen returning to the mainland to invest in factories, and although the Taiwan authorities have no choice but to consider the opinions of Taiwan businessmen—particularly those of major entrepreneurs and large investors—and to change their ultra-conservative attitudes, nevertheless the key to creating a steady flow of Taiwan businessmen eager to invest in the mainland lies in serious efforts on the part of mainland coastal regions to improve the investment climate.

Recently, most of those businesses investigating or holding talks on mainland investment have wished to invest in industry. For this reason, the mainland coastal regions must put their efforts into installing electricity and solving communication and transportation problems. Many Taiwan businessmen heard that Guangzhou was the first major Chinese city to open up to the outside world, so they originally considered investing there. However, when they saw that electrical output in Guangzhou was inadequate and that there were often local power failures, they were unwilling to invest in that region. Consequently, most of the Taiwan businessmen who have invested recently in Guangzhou have gone into trade.

Second, the convenience of communication and transportation is a major consideration for Taiwan investors. Some heard that Conghua County Guangdong had established an industrial processing district where service fees were favorable, so they made special trips there to look into it. However, when they saw that the highway between Guangzhou and Conghua was too narrow and that there were frequent traffic jams, they had no choice but to abandon the idea of building plants in Conghua. Some Taiwan businessmen are very interested in knowing when Guangzhou, Shenzhen, and Zhuhai will begin official construction on high-speed expressways. They feel that when an expressway is built on the Zhujiang Peninsula and transportation becomes more convenient the region will naturally be able to accommodate foreign and Taiwan businessmen.

Ting K'ai-en and some Taiwan businessmen indicated that the city of Dongguan has been most efficient in trade negotiations and in taking action. One of the vice

mayors in Dongguan arranges the deals and clears away any obstacles in the path so that procedures are simple and convenient. By contrast, when they set up negotiations in Guangzhou and other places, there is too much banal pleasantries and too much fussing and wrangling over trifles, the formalities are tedious, and the process becomes forbidding. After one Taiwan businessman met with rejection on the mainland and returned to Taiwan, rumors traveled fast, and thereafter Taiwan businessmen did not dare to make inquiries. Ting K'ai-en hopes that mainland authorities will simplify procedures to make matters more convenient for Taiwan businessmen.

In addition, right now most of the Taiwan businessmen seeking to invest and build plants in the mainland are not interested in equity joint ventures or contractual joint ventures; rather they wish to establish wholly foreign-owned enterprises. Although the Taiwan businessman has full operational and management powers over a wholly foreign-owned enterprise, every time something needs to be done he still has to deal with certain domestic departments. Many Taiwan businessmen say that domestic departments frequently fail to cooperate or coordinate well with wholly foreign-owned enterprises, and some still deliberately make things difficult. At the same time, some mainland offices are relatively inefficient at handling matters, which makes it difficult to get anything done.

Moreover, many Taiwan businessmen are concerned about the continuing deterioration of public security in Guangdong. They say that one of the reasons they wish to move their businesses abroad is because of the deteriorating public security at home. If security measures are poor on the mainland, Taiwan businessmen have no wish to invest there.

Ting K'ai-en feels that the quality of the investment climate on the mainland is the key to whether it can successfully attract Taiwan investors. When a Taiwan investor's enterprise does poorly it will have a great negative impact; and when one succeeds it will stimulate much more investment.

#### **New Political Culture in Official Circles**

90CM0274A Hong Kong CHIUSHIH NIENTAI [THE NINETIES] in Chinese No 245, 1 Jun 90 pp 34-35

[Article by Nan Changshuo (0589 2455 2592): "New Political Culture Appears in Taiwan Official Circles"]

[Text] A popular song in Taiwan is *You Can't Win Unless You Like To Risk Your Neck*. It means that one will succeed provided one dares. One of its implications is to inspire people to resist. Those in official circles have already come to see that this is an age in which one must take things by force. The result of daring to take a risk is that political chaos is permeating the levels of authority.

In the past two years or so, because of a disintegration of political authority in Taiwan, the result of dripping water wearing through rock is that there is practically no

authority in any area. Discipline has collapsed. Social order is naturally becoming chaotic. Social crime, theft of extra profits, smuggling, as well as extortion of companies and other crimes increase daily. If one ponders the situation a bit further then one will discover that it still is an interim phenomenon of social process "release-restoration." The derailing of the lower reaches of society will gradually be brought to a close only if political and economic order is restored. However, as for conservatives, they tend to seek pat answers: When there is poor public order in society, use an iron hand to restore order. There ought to be harsh laws and severe punishments. It is under such logic that Taiwan's only military strongman with the power to penalize, Hau Pei-tsun [6787 2672 2625], rose to take advantage of the situation. Military power politics has begun to raise its head. In line with Hau Pei-tsun's rise, a new "conservative alliance" is appearing.

Li Teng-hui's nomination of Hau Pei-tsun was a choice that made all political observers lower their eyes. Actually, his choice is not unexpected if you understand Li's thinking. His thinking matured during the 1950's. That was a growth-seeking age in which bold government was advocated to guide economic construction. When people who grew up in that era run into social disorder they all tend to stress the government should use bold means to restore order. In the past year, Li Teng-hui has already proclaimed countless times that "we must restore the authority of public power." His nomination of Hau Pei-tsun as head of the Executive Yuan is no more than a footnote to this comment. Because Hau Pei-tsun has been in control of the army for at least a decade, and in the last three years has even extended his power to public security intelligence channels, the administrative style of such a person who assumes overall responsibility for all power to penalize as head of the Executive Yuan, no matter how he changes the situation, can pretty much be predicted. In the past several years, Hau Pei-tsun has acted consistently very rashly. Taking the recent disturbance over the national defense budget for example is roughly the same thing. In the Legislative Yuan he publicly refused to open the defense budget to public scrutiny, even proclaiming that if its contents were revealed it would mean that the members of the Legislative Yuan violated "regulations and jeopardized [the role of] military organs in punishing crimes." Hau Pei-tsun's boldness led to a boycott by members of the Legislative Yuan, yet he gives it no notice. A military style can be seen from this.

#### **The Conservative Alliance Among Rulers**

As for nominating Hau Pei-tsun as head of the Executive Yuan, Li Teng-hui's explanation was that Hau Pei-tsun is "utterly devoted" and "loyal to me." He also defended himself, saying that Hau Pei-tsun has extremely high democratic ideals. He also indicated that if Hau Pei-tsun were head of the Executive Yuan, there would be no cause for worry because the president of the republic would still have full powers over major military issues. Yet some doubt the "sincerity" of Li's remarks on this

matter. A short while ago, Hau Pei-tsun was still a major protagonist of the "anti-mainstream" against Li Teng-hui. Probably few believe in the "utter devotion" of the two men. Moreover, Mr. Hau has managed military power a long time now. There is little chance that he would hand it over on a silver platter. It seems that the only possibility for Hau has managed military power a long time now. There is little chance that he would hand it over on a silver platter. It seems that the only possible reason Li Teng-hui is using Hau Pei-tsun is that this is a power exchange. Hau Pei-tsun's bold style in restoring social order to Taiwan removes an obstacle for Li Teng-hui's generation. Such an exchange of power marks the appearance of a "conservative alliance."

Actually, the personnel makeup of Hau Pei-tsun's Executive Yuan gives several clues about the "conservative alliance" among Taiwan's rulers. Among those in Hau Pei-tsun's Executive Yuan, great use was made of the troops of Li Kuo-ting [2621 0948 7844], the "father of Taiwan's economic construction." For example, the succession of Wang Chien-hsuen [3769 1696 3551], former vice minister of economic affairs, to minister of the Ministry of Finance; and of Hsu Li-te [1776 4539 1795] to secretary of the Executive Yuan. The current secretary of the Executive Yuan, Wang Chao-ming [3769 2507 2494], originally insisted on retiring, but has been kept on as a government affairs committee member. All of these men are Li Kuo-ting's troops. Their common attitude is that economic growth is primary. Other national goals are relatively unimportant compared to it. Considering Li Kuo-ting himself, he recently spoke publicly, surprisingly declaring that Taiwan's environmental protection movement is a "communist conspiracy." His words provoked a mighty uproar in Taiwan. The alliance of Li Teng-hui, Hau Pei-tsun, and Li Kuo-ting is on the one hand an alliance of technical bureaucrats with military men. On the other hand at the same time it constitutes a new "conservative alliance." It seems that it could have been predicted that Taiwan was becoming economically and socially conservative when Li Teng-hui officially became president of the republic. As for assigning other personnel, for example, Ch'en Lueh-an [7115 1462 1344] as minister of national defense, Ch'ien Fu [6929 1788] as minister of foreign affairs, Kuo Wan-jung [6753 1238 1369] as director of the Economic Construction Committee, Hsiao Wan-chang's [5618 8001 7022] succession as minister of economic affairs, and Lien-chan [6647 2069] as the chairman of Taiwan Province are merely Li Teng-hui's forces. The essential significance is unclear. It is only the "conservative alliance's" higher level development trend that is worth noting.

#### **New Culture in Official Circles—*You Can't Win Unless You Like To Risk Your Neck***

In the past two years or so, the traits of Taiwan's money politics have become increasingly clear. Now, with the added appearance of military politics and the conservative alliance, it is all the more clear that after Taiwan's political democratic development has gone round in

circles, little has actually come of it. Chaos in the early stage of political democratization and Taiwan's "property inflation" tide have enriched the rich and powerful and brought them into politics, affording a view of money politics. Social chaos has expanded military authority. Besides the social chaos and bad elements that have been sifted out, political chaos has precipitated a new, poor-quality culture in official circles. In the process of changes in high-level personnel and renewed appointments, one can see the new, yet poor, culture in official circles.

In the past, because powerful people decided everything in high-level official circles in Taiwan, officials did not say much and dared not be eloquent. Everyone received orders politely. Officials dealing with political affairs dared not be overly expressive. They were able only to play the role of "big public affairs officials." They could be more or less doted on by their superiors if they followed all work orders. On the other hand, they annoyed their superiors if they liked to be too expressive. That is how it was in the old culture in official circles. However, that culture has vanished and a new *You Can't Win Unless You Like To Risk Your Neck* culture is appearing.

The real reason for the appearance of this new culture in official circles is that no one really has authority in present official circles. Since there is no authority, no one is afraid of anyone. Furthermore, no one follows anyone. Thus, "to dare" has become the primary condition for the survival of officials. In the former Kuomintang power stratum, each time there was a personnel change, everyone just waited passively to be assigned. No one dared complain even if unhappy. This year there has been a big change. Almost everyone is actively vying for certain positions. For example, Li Huan [2621 3562] actively indicated that he hopes to remain head of the Executive Yuan. Ch'iu Ch'uang-huan [6726 0482 3562] actively indicated that he would like to be secretary of the party central. Lien-chan and Wu Po-hsiung [0702 0130 7160] are both grappling to be chairman of Taiwan Province. People in official circles have already seen that this is an era in which one must "take." The result of daring to go all-out is that political chaos has crept into the level of power. A poor-quality power distribution has begun.

It can be seen very clearly that the changes in this new cabinet and high-level personnel are the product of various interlocked powers. No one has full decisive power. Li Teng-hui, Hau Pei-tsun, and even such as Chiang Yan-shih [5592 1750 1102] and Li Kuo-ting have the right to speak. Besides these few, those related to many in power have their own platforms. They are not content to become pawns of others. Thus, there are those who are vying for certain positions and there are those who steadfastly want to hold onto good positions. The most typical example is Li Teng-hui's original desire to get rid of Sung Ch'u-yu's [1345 2806 3842] position as secretary of the party central and appoint Ch'iu Ch'uang-huan there instead as chairman of the government of



Taiwan Province. He also wanted to have as provincial chairman one of Li Teng-hui's own clique, Ma Lien-chan. Li Teng-hui informed Ch'iu Ch'uang-huan of this change before the fact. It was little expected that Sung Ch'u-yu would refuse to accept, so Li Teng-hui "lost confidence" in Ch'iu Ch'uang-huan. Likewise, Ma Lien-chan's appointment as provincial government chairman also ran into many obstructions. Many with ambitions for the post ardently refused. Thus, no one dares to vouch for whether Ma Lien-chan's position as provincial government chairman will be overturned at the last moment. This culture in official circles has made those in the power level of the KMT vie for power. It is a new battlefield for power by hook or by crook. In an age of powerful men, men in power shroud the overall view with their authority. What they say counts. No one dares disagree. If a country is on the road to democracy, so-called "democratic authority" might arise. All must be examined in light of the people's wishes. There naturally are standards to follow in the distribution of power and no straying from methodical order. But no doubt Taiwan has now said goodbye to strongman politics, but an entire democratic political system has yet to be enacted. Thus an odd, poor-quality culture has appeared in official circles. In the past year there has been a popular song in Taiwan, *You Can't Win Unless You Like To Risk Your Neck*. It means that you will succeed as long as you try. The song is a complex symbol. One of its implications is to encourage people to resist. But it also has a certain degree of barbarism and anarchy. Politics in Taiwan has become a battlefield where anything can happen.

#### Internal Conflicts in People's Progressive Party Haven't Abated

On the opposite side of the money and military politics, as well as the extremist internal conflicts of the KMT, is the Democratic Progressive Party. It similarly exhibits political crudeness. Legislative Committee members of the Democratic Progressive Party in the Legislative Yuan are insufferably arrogant to officials. They have consistently been unable to elevate themselves much in the national assembly system or in matters of political function. Internal clique conflicts have not abated. Rather, they have grown stronger following the KMT's system of internal money and military politics.

The basic situation when Li Teng-hui officially became president in Taiwan was a worsening political ecology of the KMT itself. Under this worsening atmosphere, the collective resistance and demonstrations from more than 80 social groups, students and professors that Li Teng-hui ran into on the day when he took office was resistance to the "Li-Hau military cabinet system." What these large-scale resistance demonstrations augur is that in the atmosphere in which he took office not only will the burden be heavy and the road long for Li Teng-hui, the future will also be full of difficulties.

#### Editorial Calls For Mainland Investment, Trade Policy

90CE0385A Taipei CHUNG-YANG JIH-PAO  
in Chinese 9 Jul 90 p 3

[Editorial: "Formulate a Feasible Policy and Way for Mainland Investment and Trade"]

[Text] On the second of this month the Chinese Communists held in Peiping [Beijing] a discussion meeting on investment and trade between the two sides of the strait, and a more than 1,200 commercial figures from both sides took part. Chang P'ing-chao [1728 1627 3113] led a delegation of approximately 600 persons from the Taiwan region of the Republic of China to the discussion meeting. The delegation included people in the commercial, tax, legal, banking, and theoretical fields. This discussion meeting can be said to be the largest discussion meeting held since the two sides of the strait opened up to each other. Representatives of 23 provinces and cities on the mainland attended the meeting. The subjects of the discussion meeting were quite wide-ranging, drawing considerable attention from both sides of the strait. During the meeting, because people from our side attending consistently linked up, and the relevant responsible persons on the Chinese Communist side repeatedly made known their position, it became clear that between both sides of the strait, there still remained considerable differences in views and practices. Therefore, various different reactions appeared in Taiwan's news media, and we sum up the differences in understanding as follows, willingly putting forward and expressing our own views.

First, with the opening of economic and trade relations between the two sides of the strait, the Chinese Communists have always demanded the "Three Exchange's" [exchange of mail, exchange of air and shipping services, and exchange through trade] and the "Three Flow's." Our government has always upheld the principle of the "Three No's" [no contacts, no negotiations, and no compromises], and has only permitted indirect trade with and investment in the mainland, not direct trade and investment. The entrepreneurial side, because indirect trade and investment not only is not convenient but also easily leads to cost increases, has constantly demanded that the government open up direct trade and investment. To attain this objective, it has constantly demanded that the government adopt separate political and economic policies, so that economic and trade relations will not be adversely affected by politics. With regard to this demand, in the past we time and again analyzed the situation and found that, in the Chinese Communists' policy toward the Taiwan region, politics and economics have never been separated, politics has always been put in command, and economics and trade have served politics. Therefore, politically, they have always adopted a threatening policy toward us, have never abandoned their intention to invade Taiwan with armed forces, and have wanted to reduce Taiwan to being their "local government." Regarding economics

and trade, they adopt a policy of syphoning off Taiwan's reserves, promising all sorts of treatment to attract Taiwan's funds and talents. Once they scoop out Taiwan's economy, they can use these funds and talents to exert pressure on the Taiwan region. This combined use of politics and economics is really a way of "killing two birds with one stone." It is quite inadvisable for us to treat it lightly. At this discussion meeting between the two sides of the strait, there was not the slightest sign of a change in this policy. All, no matter that it was Shen Juergen [3088 6030 0086], "vice minister of foreign economic relations and trade," Wu Xueqian [0702 1331 6197], "vice premier of the State Council," or Li Peng, "premier of the State Council," agreed on this with one voice. Regarding the Republic of China joining GATT, all agreed that after the Chinese Communists join with the status of "sovereign state," they will help Taiwan enter GATT. What slightest meaning does this malicious way of obstructing our application for reentry into GATT have for the separation of politics and economics? We still have a point that needs explaining on this matter. In Taiwan there are also figures who advocate that our government should have direct talks with the Chinese Communists. In his inaugural speech, [Republic of China] President Li openly and aboveboard expressed the solemn and just stand that only with a position of equality could direct talks begin to be considered. But the Chinese Communists always insist on the principle of "One Country, Two Systems," which regard the Republic of China as a local government. Such being the case, if we were to rashly enter into talks with the Chinese Communists, wouldn't that be accepting our status as a local government and falling into the Chinese Communists' trap?

Second, aren't private interests and public good in conflict? At present, entrepreneurs who are keen on investing in the mainland say that, because there is a lack of labor power in Taiwan, wages are rising, causing a "hurricane" in land values. Also, there is resistance because of environmental protection, the investment environment on Taiwan is worsening, and to survive the entrepreneurs must invest in the mainland. However, provided they leave their roots in Taiwan and do not harm the overall interests, they will, on the contrary, do what is advantageous to the escalation of the economy of the Taiwan region. But is this, in fact, the case? Based on a poll taken by the preparatory meeting for the national policy meeting, more than 70 percent of the populace thinks that opening up direct trade with and direct investment in the mainland would harm Taiwan's economy. To give real examples, at present, investment in the mainland's shoe, toy, and handbag industries, as well as in agriculture, shrimp raising, eel raising, and tea leaf cultivation, has already harmed the same types of Taiwan industries. Because of rampant smuggling, the markets on Taiwan for Xianggu mushroom growers and garlic bulb growers have suffered encroachment. We infer with this that if industries invest in the mainland on a greater scale, how could it not have the slightest effect on the Taiwan region?

Third, is the investment environment on the mainland good? Leaving aside talk about such principled questions as whether politics and economics can be separated and whether private interests conflict with the public good, just the one point of whether the investment environment on the mainland is good is worthy of more study. Speaking of the entrepreneurs who are keen on investing in the mainland, on the mainland labor is abundant, wages are low, land is easy to obtain, and so there should be a good investment environment. However, besides labor and land, there are many other factors that affect the investment environment. Among the enterprises which have invested in the mainland in recent years, some, to be sure, have been successful; but the ones that failed have not been in the minority. However, they have not uttered a single word about their failures and are unwilling to explain the reasons for their failures. In "labor" alone, in which conditions are fairly good, many obstacles have been encountered. An analysis by the investment department of the Ministry of Economic Affairs of a number of cases involving investment in the mainland concluded that, no matter whether in politics, economics, markets, basic public facilities, technologies, culture, administrative efficiency, and social conditions, in not one of these was there a good investment environment, and this fact had to be admitted even by the Chinese Communists themselves. A report from "The Economic and Technical Development Research Center of the State Council" pointed out that, in an assessment of the investment environment indices for Hong Kong, Taiwan, and the mainland coast, for Hong Kong the index was 4.33, for Taiwan the index was 4.17, and for the mainland the index was only 3.02, far less than those of Taiwan and Hong Kong. Speaking of the low wages, a Taiwan businessman under contract has to pay extra wages stipulated by law, including compulsory social insurance, voluntary retirement, and old age pensions, besides listing the basic wage. Therefore, these costs are added to the original monthly wage of 200 yuan in renminbi, which is at least 400 to 500 yuan. In addition, regarding the aspect of security, the Chinese Communists' "State Council" has laid down the rule that taxes can be levied on foreign-capital enterprises, in line with the needs of the country's society. What kind of needs? After levying taxes, will there be any compensation? There are no clear provisions in this regard. Therefore, there is the possibility that foreign capital could be taxed at any time without compensation. Moreover, if a Taiwan businessman gets involved in a commercial dispute on the mainland, he will often either be detained by the Chinese Communists or prevented from leaving China. This method by which the Chinese Communist central authorities control entry into and exit from China fundamentally will not do. All these factors should be taken into close consideration when we consider the mainland's investment environment.

In order to smoothly initiate economic and trade relations between the two sides of the strait, and to reduce the risks and losses that Taiwan entrepreneurs could encounter in mainland investment, with regard to the abovementioned

three points we not only hope enterprises who are interested in engaging in trade and investment with the other side will be able to coolly study and understand them, and make them their basis for decisionmaking and action. We hope even more that the departments in charge in the government can focus on the above three problems, and

work out a feasible policy and method that will be the basis for the entrepreneurs. We were glad to hear that the industry bureau of the Ministry of Economic Affairs intends to come up with a positive list that will permit firms to engage in indirect trade with the mainland, and hope that this list will be made public soon.

**Columnist Critical of CPC's Hong Kong Policy**

90CM0314A Hong Kong PAI HSING [THE PEOPLE]  
in Chinese No 219, 1 Jul 90 p 64

[Article by special columnist Hu Juren (5170 5468 0086): "Its Success Is Going To Be the Cause of Its Failure—A Critique of the CPC's Hong Kong Policy in the Last Eight Years"]

[Text] The motivation behind Deng Xiaoping's recently expressed longing to be able to live until 1997 so that he can come to visit Hong Kong seems to be his certainty that his projected "one country, two systems" policy will be able to keep Hong Kong stable and flourishing. His impressions of Hong Kong's "magnificence" and "prosperity" still come only from videos, other people's statements, descriptions by his children, and reports from his underlings. He is obviously not very familiar with the gravity of the confidence crisis, capital outflow, and brain drain among Hong Kong people in recent years. He thinks that his plan for "Hong Kong people to run Hong Kong" will be successful, and that the transition to Chinese rule in 1997 will go smoothly, while overlooking the anxiety of the vast majority of Hong Kong resident and the international community about the fate of Hong Kong after 1997.

Having said that Deng Xiaoping thinks that his Hong Kong policy will be a success, it can be said that it will be a "failure" from a different perspective. If "failure" is too harsh a word, it can at least be said that it will "certainly not be a success" or that it will be a "semi-failure." As Hong Kong residents are becoming increasingly pessimistic about their future, we certainly cannot stand to speculate about the disaster that Hong Kong is facing in 1997.

A review of the "reversion process" in the last eight years since the PRC and Britain began in 1982 to face up to the issue of Hong Kong's future, shows that it has been a step-by-step downhill journey. Although the CPC should have been reasonably expected to increasingly gain popular support in Hong Kong when morale was up and prospects looked good for a time after the signing of the PRC-British Joint Declaration, its methods, and certainly not simply those in the "4 June" incident, increasingly lost popular support instead. Even without "4 June" there is no denying the increasing sense of disappointment, frustration, and helplessness among Hong Kong residents in recent years.

From the general perspective of their principal posture, which of the three sides in the struggle over Hong Kong's future—the PRC, Britain, or Hong Kong—should Hong Kong residents have essentially favored? Although there should basically have been no choice between their colonial masters—Britain—and the Chinese nation—their sacred motherland—as far as history and national sentiment are concerned, and they should have naturally favored their native land, this is not what has happened. Ever since the 1997 issue began to surface, Hong Kong people have been apprehensive and afraid, not wanting

to revert to CPC rule, fearing the change, favoring Britain, and hoping to exchange "British sovereignty" for "self-rule" instead. Their mentality and stand can be called a major failure for the CPC regime in their native land. Furthermore, this apprehension and fear are the mentality not only of Hong Kong people, but also of the international community. It must be recorded in history that, although it will be acceptable if Hong Kong does not collapse in the future, an even greater mockery will be made of CPC history if it does.

Although it may be said that the mentality of Hong Kong residents in "favoring Britain" and "distancing themselves from the PRC" was caused by the socialism that was practiced in their native land and more than 30 years of too many wrong policies which have brought calamity to the country and the people, and not because the British and Hong Kong economic systems and free lifestyles were basically the same, one point that is certainly very difficult to explain is that the CPC either intentionally or unintentionally treats Hong Kong people and British Hong Kong as one on almost all major issues, which seems to make Hong Kong Chinese and Britain "accomplices." This apparent use of the evil-father (CPC) approach to "coerce" the foster mother (Britain) and son (Hong Kong), is truly a major violation of the expected tolerance of a "father of the country," and shows that the CPC has not even learned the biblical lesson of the father's treatment of the repentant prodigal son. Are Hong Kong people, after all, any less "prodigal sons" to their native country!

It seems that the CPC opposes everything that Britain tries to win for Hong Kong residents, and criticizes them for all British ideas which they support. This was most obvious in the earliest proposal for a "representative system of government." Whereas Britain proposed a "representative system of government" as a tentative plan for the future of Hong Kong and to truly enable "Hong Kong people to run Hong Kong" with democratic institutions, the CPC saw this at once as a unilateral attempt to control "Hong Kong people running Hong Kong" in a Chinese style. Consequently, the proposal for a representative system of government died unborn under the vigorous opposition of the CPC. This should be seen as a major failure in the CPC's Hong Kong policy, because it was eventually unable to win public support. Why was the CPC unable to propose a plan that would please Hong Kong more than did Britain's? The CPC's opposition instead to the British Hong Kong proposal and the plan that was worked out by Hong Kong people, which forced Hong Kong people to Britain's side and was out of line with both reason and national feelings, was simply the height of stupidity!

I would like to ask the CPC the following questions: Why did you have to push the Hong Kong Chinese to Britain's side? Why have you been unable to win public support among Hong Kong people? Was this intentional or unintentional, or did you simply decide that it would be impossible to win Hong Kong people's support, that they

were destined to be "traitors to their native land," that they hated you, and, thus, they should be intimidated and coerced?

Hong Kong people are also extremely displeased with Britain, their biggest grievance being that Britain is not fulfilling its moral obligation and is simply delivering them into the Communist Party's hands (which is also the view of the international media). Their second grievance against Britain is that although it previously fought to "legalize" the fact that Hong Kong people were born with British nationality, as soon as a crisis occurred it closed off their escape route with its nationality laws and refused to allow Hong Kong people with "British nationality" to settle in Britain. Although these two grievances of Hong Kong people against Britain are admittedly a moral disgrace for Britain, what is ironic is that they arose precisely because Hong Kong people were trying to escape CPC rule, which is also a loss of face for the CPC.

I would also like to ask the CPC the following further questions: As to your attack on British Hong Kong for playing on public opinion, to be frank, as the representative of Hong Kong people's native land, you should be even more able to play on public opinion, so why have you crushed public opinion instead of being able to win it over? As to your attack on British Hong Kong for playing the international card, to be frank, colonies reverting to their native lands is something that has been internationally encouraged and welcomed since the end of World War II, so why have you been unable to play this card? Furthermore, as to your attacks on human rights bills and the British abode scheme, why does China want to trample on human rights? Why can you not give Hong Kong people the right to live in China and allow them to thrive by becoming citizens of the PRC? According to the ordinary logic of both Chinese and

foreign history as well as national sentiment, these are extremely irrational matters.

Asking the CPC more questions: What is the meaning of your plan to concoct by "imperial order" a basic law, whose structure is like a spider web to catch insects by increasingly clamping down on them, and putting famous Hong Kong people on the stage one after the other to play the role of "helping in the clampdown?" As your evil intentions are obvious to all, what makes you think that you can fool Hong Kong people and people throughout the world? Will not your worsening fate, despite all your scheming and "all your clever calculations and intrigues," "bring you nothing but your eventual doom instead"? Although no one can predict the fate of Hong Kong after 1997, it is certainly not going to be good, and many of its major capitalists are now thinking only like "birds getting ready to fly back to the forest" [emigrate] after a few years of "eating their fill"! It is truly only Heaven that knows whether our lovely Hong Kong will finally "end up as a vast expanse of absolutely depleted earth!"

Although commander in chief Deng Xiaoping's major Hong Kong policy strategy of taking back and gradually tightening control over Hong Kong may be a "success," his tactics of trying to keep the confidence of Hong Kong people and continue to keep Hong Kong prosperous, stable, and in the interests of Hong Kong people are going to be a "failure." As far as the CPC's plans for dealing with Hong Kong are concerned, the proverb "Failure is the mother of success," should be changed to "Its success is going to be the cause of its failure!"

Although this "success" may fulfill the CPC leaders' major plans, have there not been too many examples of their "failures" (the Great Leap Forward, the Cultural Revolution, and the decade of reform)?



22161

166

NTIS

ATTN: PROCESS 103

5285 PORT ROYAL RD

SPRINGFIELD, VA

22161

This is a U.S. Government publication. Policies, views, or attitudes of the U.S. Government. Users of this publication may cite FBIS or JPRS provided they do so in a manner clearly identifying them as the secondary source.

Foreign Broadcast Information Service (FBIS) and Joint Publications Research Service (JPRS) publications contain political, military, economic, environmental, and sociological news, commentary, and other information, as well as scientific and technical data and reports. All information has been obtained from foreign radio and television broadcasts, news agency transmissions, newspapers, books, and periodicals. Items generally are processed from the first or best available sources. It should not be inferred that they have been disseminated only in the medium, in the language, or to the area indicated. Items from foreign language sources are translated; those from English-language sources are transcribed. Except for excluding certain diacritics, FBIS renders personal and place-names in accordance with the romanization systems approved for U.S. Government publications by the U.S. Board of Geographic Names.

Headlines, editorial reports, and material enclosed in brackets [ ] are supplied by FBIS/JPRS. Processing indicators such as [Text] or [Excerpts] in the first line of each item indicate how the information was processed from the original. Unfamiliar names rendered phonetically are enclosed in parentheses. Words or names preceded by a question mark and enclosed in parentheses were not clear from the original source but have been supplied as appropriate to the context. Other unattributed parenthetical notes within the body of an item originate with the source. Times within items are as given by the source. Passages in boldface or italics are as published.

#### SUBSCRIPTION/PROCUREMENT INFORMATION

The FBIS DAILY REPORT contains current news and information and is published Monday through Friday in eight volumes: China, East Europe, Soviet Union, East Asia, Near East & South Asia, Sub-Saharan Africa, Latin America, and West Europe. Supplements to the DAILY REPORTs may also be available periodically and will be distributed to regular DAILY REPORT subscribers. JPRS publications, which include approximately 50 regional, worldwide, and topical reports, generally contain less time-sensitive information and are published periodically.

Current DAILY REPORTs and JPRS publications are listed in *Government Reports Announcements* issued semimonthly by the National Technical Information Service (NTIS), 5285 Port Royal Road, Springfield, Virginia 22161 and the *Monthly Catalog of U.S. Government Publications* issued by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

The public may subscribe to either hardcover or microfiche versions of the DAILY REPORTs and JPRS publications through NTIS at the above address or by calling (703) 487-4630. Subscription rates will be

provided by NTIS upon request. Subscriptions are available outside the United States from NTIS or appointed foreign dealers. New subscribers should expect a 30-day delay in receipt of the first issue.

U.S. Government offices may obtain subscriptions to the DAILY REPORTs or JPRS publications (hardcover or microfiche) at no charge through their sponsoring organizations. For additional information or assistance, call FBIS, (202) 338-6735, or write to P.O. Box 2604, Washington, D.C. 20013. Department of Defense consumers are required to submit requests through appropriate command validation channels to DIA, RTS-2C, Washington, D.C. 20301. (Telephone: (202) 373-3771, Autovon: 243-3771.)

Back issues or single copies of the DAILY REPORTs and JPRS publications are not available. Both the DAILY REPORTs and the JPRS publications are on file for public reference at the Library of Congress and at many Federal Depository Libraries. Reference copies may also be seen at many public and university libraries throughout the United States.